

Southern District Civil Practice Roundup

Expert Analysis

Big Firm/Small Firm—Size Matters For Attorney Disqualification

When it comes to imputing conflicts of interest, size really does matter. This much is clear from two recent decisions of the U.S. District Court for the Southern District of New York. At one end of the spectrum, Judge Naomi Reice Buchwald disqualified a small firm, notwithstanding the firm's immediate creation of a substantial ethical wall when a lawyer with a conflict joined the firm. At the other extreme, Judge Jed S. Rakoff denied a motion to disqualify where a large firm concurrently represented both sides of a litigation, notwithstanding his finding that the firm had violated ethical rules and had been grossly negligent in failing to conduct an adequate conflict check.

Ethical Screen Insufficient

Judge Buchwald's decision in *Energy Intelligence Group, Inc. v. Cowen and Co.*,¹ underscores the challenges faced by small firms seeking to avoid

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the imputation of a conflict of interest affecting an attorney who joins the firm. Plaintiffs in that case alleged that defendant Cowen and Co. had engaged in copyright infringement by forwarding, without authorization, Judge Buchwald disqualified a small firm, notwithstanding the firm's immediate creation of a substantial ethical wall when a lawyer with a conflict joined the firm.

certain energy industry newsletters produced and sold by plaintiffs. After it was sued, in addition to retaining counsel to defend the litigation, Cowen retained two lawyers from Reed Smith to advise it on its copyright policies and practices. Cowen's discussions with Reed Smith covered,

among other subjects, Cowen's business practices and use of copyrighted materials.

In February 2016, the month following the last of these meetings, one of the two Reed Smith attorneys advising Cowen left Reed Smith and, on March 1, 2016, joined the 14-lawyer firm representing plaintiffs in the litigation against Cowen. That firm immediately erected an ethical wall consisting of four components: (1) a memo to the entire office on the first day the attorney joined the firm instructing that no one was to discuss the case with the attorney; (2) an instruction to the attorney not to discuss any work Reed Smith had done for Cowen; (3) physical segregation of the case files with labeling that they were subject to an ethical screen; and (4) configuration of the firm's computer systems to prevent the new attorney from accessing the Cowen electronic case files.

On March 24, 2016, the firm wrote to Cowen's litigation counsel that the attorney had joined their firm, stating that the attorney's earlier representation of Cowen at Reed Smith had been "entirely unrelated to the

subject matter of the pending litigation,” but that out of an abundance of caution the firm had screened the attorney from the case. Cowen moved to disqualify the firm on May 11, 2016.

Judge Buchwald briefly reviewed the Second Circuit’s holding in *Hempstead Video v. Incorporated Village of Valley Stream*,² that in cases of successive representation an attorney may be disqualified if (1) the party seeking disqualification is a former client of the adverse party’s counsel; (2) there is a substantial relationship between the subject matter of the prior representation and the present litigation; and (3) the attorney whose disqualification is sought, had or is likely to have had, access to privileged information in the prior representation.

She also cited N.Y. Rule of Professional Conduct 1.9(a), which provides that “[a] lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person’s interests are materially adverse to the interests of the former client,” absent informed, written consent. Judge Buchwald further observed that although the conflicts of one attorney are ordinarily imputed to all lawyers within a firm, the presumption that lawyers share confidences within a firm may be rebutted through a timely and effective ethical screen. She noted, however, that “among small law firms, sufficient ethical screens are difficult, if not impossible, to maintain.”

Applying these principles, Judge Buchwald rejected the plaintiffs’ argument that the earlier representation was unrelated to the subject matter of the litigation before her, holding that “[t]he substantial relationship between the two representations is readily apparent as a matter of sequence, logic and... evidence,” noting that the retention of Reed Smith followed the filing of the lawsuit and that the Reed Smith attorneys had been given a copy of the complaint. She further held that the attorney who changed firms had received privileged information, reasoning that to advise on new policies Reed Smith would have had to understand Cowen’s existing policies and that such “information... could very well contain harmful admissions....”

Having found that the new lawyer had a conflict of interest, Judge Buchwald went on to hold that the firm’s ethical wall was insufficient to rebut imputation of that conflict to the rest of the firm, based principally on two factors. First, focusing on the fact that the firm consisted of fourteen lawyers in a single office, she found that the firm’s small size “by its nature imperils an ethical screen.”³ Second, she noted that the lawyer with the conflict, after joining the plaintiffs’ firm, was representing the plaintiffs in a substantially similar case against a different defendant.

Judge Buchwald noted several other facts that caused her concern about the adequacy of the firm’s sensitivity to ethical matters, and thus its ethical wall, including that the firm waited three weeks to inform

Cowen of the potential conflict; that the firm had taken the position at oral argument that the new lawyer could represent the plaintiffs in that very case; and that despite appearing as counsel of record for the plaintiffs in another litigation, the new lawyer denied “actively litigating” claims for the plaintiffs. Additionally, Judge Buchwald noted that the risk of prejudice to plaintiffs was reduced by the fact that another law firm had been acting as co-counsel to the disqualified firm for more than a year. Although the firm’s small size was significant to Judge Buchwald’s decision, these other factors may be useful in distinguishing this case for other small firms seeking to erect ethical screens.

Large Firm

In contrast to Judge Buchwald’s treatment of the small firm in *Energy Intelligence Group*, Judge Rakoff denied a motion to disqualify a large national firm in *Victorinox v. The B & F System*,⁴ where attorneys within the firm had represented opposing parties, albeit in different matters, without a formal screen.

The disqualification motion arose on appeal from a trademark infringement judgment rendered by Judge Rakoff against the defendants relating to counterfeit sales of Swiss Army Knives. The U.S. Court of Appeals for the Second Circuit remanded that motion for decision by Judge Rakoff who held an evidentiary hearing. The record showed that plaintiffs’ initial law firm merged with Locke Lord LLP

in January 2015. Locke Lord, by virtue of a previous merger in 2007, also represented one of the defendants on various intellectual property matters unrelated to the Swiss Army Knife litigation. Thus, starting in January 2015, Locke Lord simultaneously represented the plaintiffs in the case before Judge Rakoff (through attorneys located in New York) and one of the defendants in other matters (through an attorney located in Texas).

In November 2015, the defendant's Locke Lord lawyer in Texas received an internal email related to the New York litigation and recognized the conflict. He consulted with the firm's ethics partner, and sent a letter nearly a month later to the defendant terminating the representation, ostensibly for economic reasons, without mentioning the conflict of interest. The firm did not set up an ethical wall, and the Texas lawyer testified before Judge Rakoff that he set up his "own wall" separating himself from the New York lawyers in Locke Lord representing plaintiffs.

Citing *Hempstead Video*, Judge Rakoff began his analysis with the observation that "[c]oncurrent representation of parties on opposing sides of a litigation is a prima facie conflict of interest." He found that Locke Lord's representation was a violation of the New York Rules of Professional Conduct, specifically Rule 1.7, and the court's Local Rule 1.5(b)(5). He went on to hold that these violations resulted from gross negligence because, when merging

with the firm that originally represented plaintiffs, Locke Lord had limited its conflict check to matters on which that firm had billed \$100,000 or more in one or both of the previous two years. Judge Rakoff remarked that the firm never completed a full conflict check "because the firm decided it was just not worth it to comply with its ethical obligations."

Finally, Judge Rakoff held that the letter from the Texas lawyer terminating the representation of the defendant was "misleading on its face," inasmuch as it cited economic reasons for ending the relationship when the conflict was the precipitating factor.

Notwithstanding his obvious displeasure with Locke Lord's conduct on multiple scores, Judge Rakoff in 'Victorinox' concluded that the Texas lawyer's conflicts should not be imputed to the New York team representing the plaintiffs and denied the disqualification motion.

Notwithstanding his obvious displeasure with Locke Lord's conduct on multiple scores, Judge Rakoff concluded that the Texas lawyer's conflicts should not be imputed to the New York team representing the plaintiffs and denied the disqualification motion. He found no evidence that there had been any exchange of pertinent information between the Texas lawyer and the New York

lawyers representing plaintiffs, despite the presumption that the conflict should be imputed to the firm as a whole. Judge Rakoff also found, without elaboration, that the matters on which Locke Lord represented the defendant in Texas were "very substantially different" from the matter on which it represented the plaintiffs in New York. Finally, he was swayed by the fact that no present conflict existed because the concurrent representation ended in December 2015.

Conclusion

These two decisions highlight the need for considerable care in integrating lateral partners into law firms. For smaller firms, ethical screens may not be sufficient to avoid disqualification; for larger firms, inadequate conflict checks can expose the firm to judicial criticism.



1. 2016 WL 3920355 (S.D.N.Y. July 15, 2016).
2. 409 F.3d 127 (2d Cir. 2005).
3. 2016 WL 3920355, at *6 (citing, inter alia, *Crudele v. New York City Police Dept.*, 2001 WL 1033539 (S.D.N.Y. Sept. 7, 2001); *Decora v. DW Wallcovering*, 899 F.Supp. 132 (S.D.N.Y. 1995)).
4. 2016 WL 4069868 (S.D.N.Y. July 29, 2016).