JONES DAY

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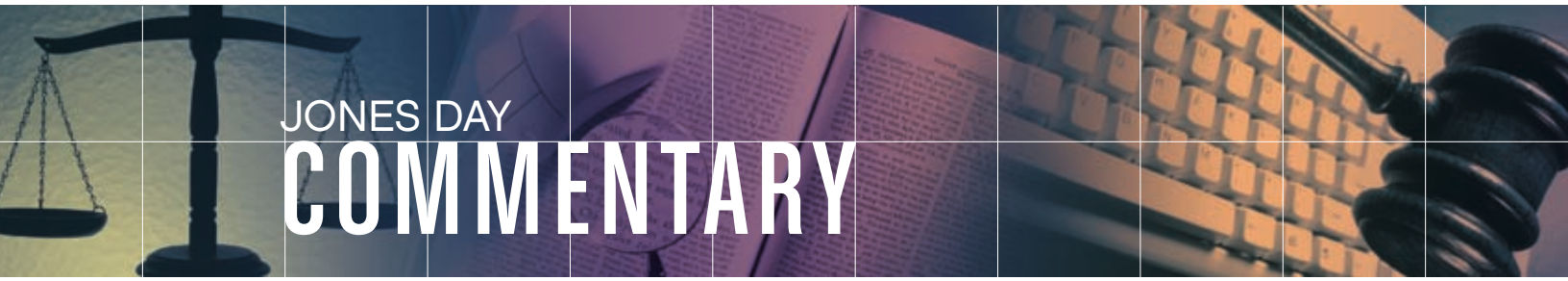

BAR LICENSE REQUIREMENTS FOR IN-HOUSE COUNSEL

In August 2006, Smithfield Foods abruptly changed the title of its general counsel, apparently removing his legal duties. To boot, authorities from the Virginia bar publicly announced that they would begin a disciplinary investigation against Smithfield's general counsel. Likewise, Smithfield Foods began an internal investigation. The matter is still pending.[1]

The cause was not fraudulent or criminal behavior, but an administrative misunderstanding. The Smithfield Foods GC had not maintained "active" status in the Virginia bar since 2001, whereas the bar rules required either active status or (since 2004) special licensing as an in-house lawyer. The Smithfield Foods GC had neither. In the context of a labor dispute between Smithfield Foods and its union, the union discovered this failing. At the company's annual meeting, the union caught the company management off-guard by asking questions about the GC's "unlicensed" status. This is a clear case of administrative requirements being used as a sword for ulterior purposes, but the problem is destined to be repeated if licensing requirements for in-house counsel are not minded. Moreover, licensing issues raise serious concerns about the integrity of privileged communications involving in-house counsel.

This *Commentary* is intended to raise awareness of an issue that has received little attention in the legal community but has an increasing profile among licensing authorities. Licensing for in-house counsel also appears to be a new hot button for corporate watchdogs and other critics, leading to surprise telephone calls to GCs at *Fortune* 500 companies.[2] In recent years, many jurisdictions have implemented special licensing for in-house counsel. At present, 26 states, the overwhelming majority of those with a specific requirement, have adopted an in-house counsel rule or license requirement.[3] Accordingly, licensing compliance should be an essential part of law-department housekeeping. The good news is that compliance is simple.

This *Commentary* uses Pennsylvania's licensing rule as the primary example because it is recent and typical of those considered or implemented in other states. The issues, problems, and solutions are the same almost everywhere.

INTRODUCTION: THE PENNSYLVANIA LIMITED IN-HOUSE COUNSEL LICENSE

Two years ago, the Supreme Court of Pennsylvania adopted a new bar admission rule that applies directly to in-house counsel who have an office in Pennsylvania or who routinely give advice in Pennsylvania. The court promulgated Pennsylvania Bar Admission Rule 302, entitled "Limited In-House Corporate Counsel License," effective September 27, 2004. This rule created a new category of attorney license.

Prior to Rule 302, in-house counsel occupied a special class but did not receive special treatment. There was room for debate whether in-house lawyers with offices in Pennsylvania who provided legal services only to their corporate employers were "engaged in the practice of law" in Pennsylvania. A similar issue existed as to corporate counsel with offices *outside* Pennsylvania who routinely provided legal services *in* Pennsylvania. Now, however, it is clear that in-house counsel must be licensed in each situation.

In Pennsylvania alone, there are thousands of in-house counsel, not all of whom are licensed generally or specially. However, fewer than 150 attorneys had applied for limited license status in Pennsylvania as the in-house licensing requirement approached its two-year anniversary.[4]

BASIC LICENSING REQUIREMENTS FOR IN-HOUSE COUNSEL

In-house counsel typically are highly mobile while employed by a particular company (due to multistate operations) and over the course of their careers (due to mobility between companies over time). Thus, in-house counsel ordinarily have two separate "domiciles" for licensing purposes:

- A "*home state*," where the counsel is generally admitted to the bar; and
- A "*host state*," where the counsel's office is based.

A lawyer admitted in Georgia but working in Philadelphia for a corporation would have a Georgia home state and a Pennsylvania host state. Obviously, an in-house lawyer can be admitted to the bar of more than one state. Likewise, an in-house lawyer might commonly have offices in, or regular professional contacts with, states other than his or her home state.

Some states—and the ABA Model Rules of Professional Conduct—do not require in-house counsel to be licensed in their "host states" so long as they are licensed somewhere (their "home states"). The ABA Model Rules expressly provide that an in-house lawyer *need not* be admitted in his or her host state. ABA Model Rule Prof'l Conduct 5.5(d).[5] The reasoning for the Model Rule approach is straightforward and makes perfect sense—to allow an in-house lawyer to act outside his/her "home" licensing state "serves the interests of the employer and does not create an unreasonable risk to the client and others because the employer is well situated to assess the lawyer's qualifications and the quality of the lawyer's work." *Id.* at comment 16. States in which an in-house lawyer need not be admitted include Arkansas, Arizona, the District of Columbia, Nebraska, New Hampshire and, most recently, Washington. Yet Pennsylvania and many other states require special licenses.[6]

THE PENNSYLVANIA EXAMPLE FOR IN-HOUSE LICENSING

Back to Pennsylvania. At the outset, one must assess whether an in-house counsel is "practicing law" and where that lawyer is practicing. If an in-house attorney is not deemed to be "practicing law" in Pennsylvania, then of course there is no need to be admitted. If, however, an in-house lawyer is "practicing law" in Pennsylvania and does not have a Pennsylvania license, then the lawyer could be considered to be engaged in the "unauthorized practice of law." Although hopefully a rare occurrence, this is exactly the predicament that the Smithfield Foods GC fell into.

In Pennsylvania and many other states, the unauthorized practice of law is a crime, notwithstanding that it is highly unlikely to attract the attention of a prosecutor in the ordinary course. *See, e.g.*, 42 Pa. Cons. Stat. Ann. § 2524 ("[A]ny person . . . who within this Commonwealth shall practice law, or who shall hold himself out to the public as being entitled to practice law, . . . without being an attorney at law . . . commits a misdemeanor of the third degree upon a first violation. A second or subsequent violation of this subsection consti-

tutes a misdemeanor of the first degree."). Furthermore, if the in-house counsel is admitted as a lawyer *elsewhere* (as is likely), then the unauthorized practice of law in a host state is a potential basis for discipline in the host state even if he or she is not licensed there. *See, e.g.*, Pa. R. Prof'l Conduct 8.5(a) ("A lawyer not admitted in this jurisdiction is also subject to the disciplinary authority of this jurisdiction if the lawyer provides or offers to provide any legal services in this jurisdiction."). Moreover, the lawyer potentially could be subject to discipline in the lawyer's home state. *See, e.g.,* Pa. R. Prof'l Resp. 8.5(a) ("A lawyer admitted to practice in this jurisdiction is subject to the disciplinary authority of this jurisdiction, regardless of where the lawyer's conduct occurs.").

Based on Rule 8.5(a) of the Pennsylvania Rules of Professional Conduct and Rule 302 of the Pennsylvania Bar Admission Rules, the Supreme Court of Pennsylvania expressly asserts disciplinary jurisdiction over in-house corporate counsel who perform legal services on "more than a temporary basis" in Pennsylvania. It likewise asserts jurisdiction over corporate counsel who maintain an office (or other "systematic and continuous presence") in Pennsylvania.

The in-house lawyer has three basic licensing alternatives: (1) general admission after fulfilling the host state's bar requirements (either through direct application or application via reciprocal admission); (2) *pro hac vice* admission for discrete matters pending in the host state's courts; or (3) if available in the host state, a limited in-house corporate counsel license. This *Commentary* focuses on the third alternative.

THE SCOPE OF PRACTICE FOR IN-HOUSE COUNSEL

The Pennsylvania in-house counsel license provides a broad authority to work for a corporation (and, with limitations, its constituents). Pennsylvania Bar Admission Rule 302 spells out this scope. Naturally, in-house counsel are authorized to negotiate and document "all matters" for the business organization. In addition, in-house counsel are entitled to give advice to directors, officers, employees, and "agents of" the business organization regarding the organization's business affairs. Furthermore, in-house counsel are entitled to represent the organization in front of agencies or commissions so long as that agency or commission authorizes practice by in-house counsel who are not generally admitted.

The in-house rule does, however, have some important limitations. The limited license does not entitle in-house counsel to represent the corporation in Pennsylvania courts. In such cases, a *pro hac vice* admission is required. The limited license also does not authorize legal advice or representation on "personal matters" involving shareholders, partners, owners, officers, employees, or agents of the corporation. Depending on the size and business of the entity, the dividing line between personal and business affairs is likely to be blurry. Nevertheless, corporate counsel should be able to navigate this divide through personal judgment and, if necessary, by using an engagement agreement to spell out the distinction between personal and business representation.[7]

Corporate counsel also are not authorized to represent or provide advice to "any third party" having dealings with the counsel's employer. Here again, the line between the corporation and "third party" representation is likely to be blurry at times. For example, in-house counsel commonly need to deal with current and former employees who are actual or potential witnesses for the corporation.[8] A lawyer commonly would undertake to represent such a person jointly with the corporation. For a current employee who is a witness, the representation likely would be deemed to be a "company matter," and therefore, the representation would be authorized by the in-house license. However, if a witness is a former employee, it is possible that the representation would not be within the limited license because the employee is a "third party."[9] Limited corporate counsel also cannot offer or provide legal services to the public at large in Pennsylvania (but may engage in certain supervised or organized pro bono projects).

WHEN SHOULD IN-HOUSE COUNSEL SEEK LIMITED ADMISSION?

In-house counsel who are not admitted in a potential "host state" are likely to fall into one of three categories: (1) counsel who have so little contact with the state that no action is needed because they are not "practicing law" in that state; (2) counsel who qualify for general admission even though

they are not in fact generally admitted; and (3) counsel who qualify for limited admission under the state's in-house counsel procedure.

In-house counsel admitted elsewhere, but who give advice in Pennsylvania on an extremely limited basis, probably do not need to take any action. Such counsel should review Pennsylvania Rule of Professional Conduct 5.5, which governs the "Multijurisdictional Practice of Law." The rule allows attorneys admitted outside Pennsylvania to provide legal services in Pennsylvania on a temporary basis, if the legal services are related to the lawyer's practice in the state where he or she is admitted, are provided in conjunction with a Pennsylvania lawyer, or are provided in anticipation of *pro hac vice* admission to practice in Pennsylvania.[10] In all likelihood, even protracted negotiations in a single, temporary transaction or dispute are unlikely to trigger the license requirement.

With limited exceptions, every in-house counsel with an office in Pennsylvania should seek admission to the Pennsylvania bar in some capacity. Likewise, in-house counsel who do not have an office in Pennsylvania but who can be said to practice on a "systematic and routine" basis in Pennsylvania also should seek prompt admission. Counsel must decide whether to seek general or limited admission. The requirements for general admission are set forth in Bar Admission Rules 203 (for law school graduates who are not already licensed attorneys) and 204 (for domestic attorneys seeking reciprocal discipline). In most cases, in-house counsel will not realize any advantage from pursuing admission under the general admission procedures.[11] Accordingly, most in-house lawyers will benefit by obtaining a limited Pennsylvania license.

IN-HOUSE COUNSEL WITH AN EXCLUSIVELY "FEDERAL" PRACTICE

A special and somewhat unclear situation is presented by the in-house lawyer who has an exclusively federal practice. Attorneys in the patent, copyright, and trademark areas are classic examples, as are attorneys limiting their work to federal tax issues. In a less clear example, an attorney who is involved primarily in international transactions probably would not be said to be giving advice "on" the law of the host state, but nevertheless might be said to be giving advice "in" the host state and could therefore be subject to the host state's limited license or other bar requirements. Each situation will need to be considered on a case-by-case basis.

For attorneys practicing in an exclusively federal area, the Supremacy Clause of the United States Constitution prevents a state from placing excessive limitations on that privilege.[12] Through recent amendments (as a follow-up to the ABA Ethics 2000 project), the Pennsylvania Rules seem, in part, to expressly contemplate that an exclusively federal practice is not subject to general Pennsylvania licensing requirements. Pennsylvania Rule 5.5(d) acknowledges that a lawyer can provide, in Pennsylvania, "services that the lawyer is authorized to provide by federal law." Pa. R. Prof'l Conduct 5.5(d). Moreover, a comment to the rule states that subsection (d)(2) "recognizes that a lawyer may provide legal services in a jurisdiction in which the lawyer is not licensed when authorized to do so by federal or other law, which includes statute, court rule, executive regulation or judicial precedent." *Id.* at comment 18. However, the rule does place some strings on this permission. The rule appears to add the requirement that the lawyer is "not disbarred or suspended in any jurisdiction" and also makes the permission "*subject to*" the limited in-house counsel rule. Pa. R. Prof'l Conduct 5.5(d). These limitations are not entirely consistent with the concept of federal supremacy, and it remains to be seen how Rule 5.5(d) will be interpreted on this point (if indeed there ever is an opportunity to interpret it).

Although this area is not frequently litigated, there is case support in Pennsylvania for lawyers to be excused from the state's disciplinary jurisdiction if the lawyer's practice is confined to "federal" law and the lawyer has been admitted to the bar of the federal tribunal before which he or she practices. *See, e.g., Surrick v. Killion*, No. 04-5668, 2005 WL 913332 (E.D. Pa. Apr. 18, 2005). In the case of *Surrick v. Killion*, a suspended Pennsylvania lawyer challenged Pennsylvania's authority to discipline him for practicing law only in federal court, when the lawyer had been suspended from both state and federal court, had completed the federal suspension period, but had not been reinstated to active state practice. Based on *Sperry v. Florida*, 373 U.S. 379 (1963), in which the Supreme Court permitted a lawyer to practice patent law from an office in Florida without being admitted there, the district court in *Surrick* held that the Supremacy Clause preempted any Pennsylvania rule prohibiting Surrick from practicing exclusively federal law in Pennsylvania. *Surrick*, 2005

WL 913332, at **9, 11. The district court required Surrick to move for reinstatement to Pennsylvania and imposed other requirements on him.[13] On appeal, the Third Circuit affirmed the district court, holding that state disciplinary rules might hamper the exercise of a federally granted privilege. *Surrick v. Killion*, 449 F.3d 520, 533-34 (3d Cir. 2006). The Third Circuit emphasized, however, that Surrick would be required to bring his Pennsylvania license current by way of reinstatement. *Id.* at 535-36.

Based on cases from both the Pennsylvania state and federal courts, a lawyer who claims to have an "exclusively federal" practice is likely to be carefully scrutinized.[14] However, the same licensing concerns for a lawyer claiming a "purely federal practice" in a law-firm setting are not present in the in-house context. In private practice, the concern of the courts is that actual or potential clients will not realize that the lawyer's practice is limited and that the lawyer's ability to represent the client is restricted. In the in-house context, the corporation ordinarily would appreciate these limitations. Moreover, a lawyer with an "exclusively federal" practice in a corporation usually is going to be employed alongside lawyers who are generally admitted to state practice (such as when a corporation has patent counsel in addition to other corporate counsel). Alternatively, the limited in-house lawyer has the ability to retain outside counsel to cure any limitation.

THE REQUIREMENTS FOR PENNSYLVANIA LIMITED ADMISSION

Under Pennsylvania Bar Admission Rule 302, in-house counsel must meet six requirements:

1. A law school degree.
2. Admission to practice in, and active status in, at least one state, one territory, or the District of Columbia (note that there is no restriction to "reciprocal" states as necessary to "waive in" to practice via general admission).
3. Absence of prior conduct that, in the view of the Board of Law Examiners, shows unfitness to practice.
4. A certificate of good standing from each jurisdiction in which the applicant has been admitted (presumably this encompasses federal courts as well as state courts and territories).
5. A sworn statement that the applicant will limit his or her practice in Pennsylvania to the employer's business.[15]
6. A statement from an officer, a director, or the general counsel of the employer, verifying the applicant's status as in-house counsel.

These requirements are straightforward and, along with an admission fee, entitle in-house counsel to limited admission.[16] Perhaps the one requirement that could delay an application is Item 2. If an in-house attorney has taken inactive status in another licensing state, then the Pennsylvania Board of Law Examiners is likely to require the attorney to become active again in that state before processing the application for the limited Pennsylvania license.[17]

THE EFFECT OF LIMITED ADMISSION IN PENNSYLVANIA

There are four direct effects of the limited admission rule. First, of course, the lawyer may practice as prescribed by the rule without any threat, however remote, of prosecution or discipline for the unauthorized practice of law. The second effect is that the in-house attorney comes within the direct jurisdiction of the Supreme Court of Pennsylvania for professional conduct and disciplinary purposes.[18] Third, the lawyer is subject to the Pennsylvania CLE requirements just as any other active Pennsylvania lawyer admitted for all purposes.[19] Fourth, the lawyer's prior "unlicensed" practice is grandfathered.

The most significant effects of limited admission come about as a consequence of an obscurely worded passage. Subsection (g) of the new limited admission rule provides a "reach-back" protection. Rule 302(g) provides in part:

> Prior to the effective date of this rule, when an attorney performed legal services in this Commonwealth solely as an employee of a business organization . . . the rendering of such legal services shall be deemed for all purposes to have been the authorized engagement in the practice of law in this Commonwealth, if such attorney [met the first four requirements for limited admission set forth above].
>
> Pa. Bar Adm. R. 302(g).

This part of the rule is confusingly worded. As written, it would leave a "gap period" for attorneys who are admitted via limited admission after the effective date of the rule. This

does not appear to have been the intent of the drafters. In addition, if the rule is applied strictly as written, no attorney would precisely fulfill the first four requirements of the limited admission rule because he or she would not have obtained a certificate of good standing. The rule obviously is meant to require the attorney to be in good standing in the various jurisdictions in which he or she is admitted on a general (nonlimited) basis and to not have any history of "bad conduct." *See* Pa. Bar Adm. R. 302(d)(3) (requiring the "[a]bsence of prior conduct by the applicant which in the opinion of the board indicates character and general qualifications (other than scholastic) incompatible with the standards expected to be observed by members of the bar of this Commonwealth"). Subsection (g) clearly authorizes, on a retrospective basis, past conduct by the in-house attorney that otherwise might be viewed as the unauthorized practice of law. Likewise, this subsection brings such conduct within the disciplinary jurisdiction of the Supreme Court. In addition, however, the rule provides a very different yet important protection to in-house counsel and their clients—prior practice by in-house counsel falls within the scope of the attorney-client privilege.

THE CONSEQUENCES OF NOT OBTAINING A LIMITED IN-HOUSE COUNSEL LICENSE

The Pennsylvania in-house counsel rule does not provide for any express time limitation on applications by attorneys who fall within its reach. Likewise, the rule does not contain an express "expiring amnesty" period such as that used by other states, whereby in-house counsel are encouraged to register before amnesty for nonlicensed practice is taken away.[20] The limited license rule itself does not contain any express penalties for a violation. Instead, the rule encourages compliance through the benefits of limited admission and through the effect of Pennsylvania Rules of Professional Conduct 5.5, 5.1, and 8.5, along with the (highly remote) prospect of criminal enforcement of the unauthorized practice statute.

Rule 5.5(a) of the Pennsylvania Rules of Professional Conduct provides that a lawyer shall not practice in violation of license requirements or assist someone in doing so. Pa. R. Prof'l Conduct 5.5(a). Rule 5.5(b)(1) prohibits a lawyer not licensed in Pennsylvania from establishing an office or other systematic and continuous presence there. *Id.* at 5.5(b)(1). Rule 5.5(b)(1) exempts lawyers who have received a limited in-house counsel license, and Rule 5.5(d) likewise authorizes in-house activities pursuant to the in-house counsel license. *Id.* 5.5(b)(1), 5.5(d).

Rule 5.1 of the Pennsylvania Rules of Professional Conduct applies to supervisory lawyers. It requires a supervisory lawyer to take reasonable efforts to ensure that subordinate lawyers conform to the Rules of Professional Conduct. Pa. R. Prof'l Conduct 5.1. The comment makes clear that the rule applies to members of a corporate law department. Accordingly, Rule 5.1 gives in-house supervisory attorneys an incentive to ensure that subordinate attorneys are licensed, if necessary. Rule 8.5(a) simply provides a vehicle for Pennsylvania to assert jurisdiction over lawyers not admitted here if they "provide[] or offer[] to provide any legal services in [Pennsylvania]." Pa. R. Prof'l Conduct 8.5(a).

It would be very rare for a district attorney to enforce an unauthorized practice statute unless there is a specific complaint from a "client," bar association, disciplinary authority or, occasionally, competing lawyer. The consequences of unauthorized practice can, however, be severe. This *Commentary* already has discussed the example of Smithfield Foods, but that situation is not unique.

In a case that is remarkable mainly for the court's conclusion, two Georgia lawyers were indicted in 2004 by a North Carolina grand jury for the alleged unauthorized practice of law in North Carolina. These two lawyers provided counsel to Gardner-Webb University in North Carolina as part of an investigation into the university's basketball program. The Georgia lawyers were not members of the North Carolina bar, nor did they have local counsel in North Carolina. The Georgia lawyers did, however, consult with in-house counsel for the university.

At the conclusion of their investigation, the Atlanta lawyers drafted an extensive report detailing their findings. The report set forth recommendations on the way the Gardner-Webb basketball program operated, and it was critical of several professors and university officials. Apparently, the investigative report by the Atlanta lawyers created an uproar in the university community, resulting in the resignations of some professors in protest over the report. Thereafter, a North Carolina lawyer with apparent ties to the university trustee complained to the North Carolina State Bar, alleging that the Atlanta law-

yers were not authorized to practice law in North Carolina. 20 ABA/BNA Lawyers' Manual on Prof'l Conduct 203 (April 2004). The bar association, concluding that the Georgia lawyers had engaged in the unauthorized practice of law, issued a warning. The local district attorney apparently agreed. As a result, the two Georgia lawyers were indicted by a Cleveland County, North Carolina, grand jury. In addition, the North Carolina Bar's Authorized Practice Committee cautioned the lawyers against practicing in North Carolina.

While prosecutions for the unauthorized practice of law may be rare, it is nearly impossible to predict when one might occur. A prosecution or disciplinary proceeding might be sparked by a motive that has nothing to do with protecting the public. In the example of Smithfield Foods, the Virginia bar opened an investigation of the general counsel only after disgruntled union officials researched his background as part of a campaign to organize workers at Smithfield's Tar Heel, North Carolina, plant.

THE POTENTIAL IMPACT OF LICENSING ON PRIVILEGE

Courts routinely consider whether communications to or from in-house counsel are entitled to privileged status as attorney-client communications. It is generally accepted that, so long as an in-house lawyer is acting as a lawyer as opposed to a business executive, the communications are entitled to this privilege. *See, e.g., Koen Book Distribs. v. Powell, Trachtman, Logan, Carrle, Bowman & Lombardo, P.C.*, 212 F.R.D. 283, 284 (E.D. Pa. 2002) ("It is clear that the attorney-client privilege applies in the corporate setting when an employee seeks legal advice from in-house counsel . . . ."); *Andritz Sprout-Bauer v. Beazer East*, 174 F.R.D. 609, 633 (M.D. Pa. 1997) ("[I]n-house counsel . . . may perform a number of functions for the corporation, only some of which place them in the role of legal advisor. Communications made by in-house counsel functioning in the role of business advisor or corporate administrator are not privileged."); *see also Monah v. Western Pennsylvania Hosp.*, 44 Pa. D. & C.3d 513 (C.P. Allegheny County 1997) (evaluating tests used to determine whether employee's communication with in-house counsel is privileged); *Florida Marlins Baseball Club, LLC v. Certain Underwriters at Lloyd's*, 900 So.2d 720 (Fla. Dist. Ct. App. 2005) (concluding documents prepared by baseball club's in-house lawyer, who was not admitted in state, were protected by the attorney-client privilege).

Moreover, courts have held that, in order to create a privilege, an in-house lawyer need not be licensed in every jurisdiction in which he or she might make a communication, or in every jurisdiction from which he or she might receive a communication. *See Renfield Corp. v. E. Remy Martin & Co., S.A.,* 98 F.R.D. 442 (D. Del. 1982) (holding that in-house counsel based in France was a "lawyer" where communications were made [to him] from the United States); *Georgia-Pacific Plywood Co. v. United States Plywood Corp.,* 18 F.R.D. 463 (S.D.N.Y. 1956) (recognizing a privilege for communications with corporate counsel who cannot be expected to be licensed in every state in which the corporation has litigation). However, it is important to realize that these cases arose in circumstances somewhat different from the one that would confront an in-house lawyer who is not admitted in his or her "host state."

In *Renfield*, the in-house attorney was based in France and was licensed as the equivalent of a lawyer there. Accordingly, the in-house counsel was in compliance with the licensing requirements of his "home" jurisdiction. District Judge (later Third Circuit Judge) Stapleton observed that the lawyer was a "conseil juridique" entitled to create a basis for the attorney-client privilege because that would forward the policies of confidential and unfettered communication to legal counsel. 98 F.R.D. at 444.

In *Georgia-Pacific Plywood*, the in-house attorney, Heilman, was not licensed in his "host state." 18 F.R.D. at 464. Heilman had the title of "Director, Patent and Legal Department." Although Heilman resided in and had his offices in New York State, he was not admitted to the New York bar. Heilman was, however, admitted to the District of Columbia and Pennsylvania bars. In a discovery dispute in patent litigation between Heilman's employer and its main competitor, the competitor sought to discover communications to and from Heilman that had occurred during prior, unrelated litigation. The court first concluded that Heilman had performed his actions in the prior litigation as a lawyer rather than as a businessman. The court then turned to the next challenge—that the attorney-client privilege did not apply because Heilman indisputably was not a member of the bar in New York, where he was based. District Judge Irving Kaufman swept aside the argument that Heilman must have been admitted locally

in order to qualify as a lawyer for the purpose of creating a privilege. The court's basis for doing so is worth examining.

Judge Kaufman reasoned that there are two principal reasons why a nonadmitted lawyer might not be entitled to create a privileged communication, one theoretical and one practical. The theoretical reason to deny the privilege would be that the privilege is a creature of state law and that jurisdictions where a lawyer is licensed (for Heilman, D.C. and Pennsylvania) could not confer privileges in other states (such as New York). 18 F.R.D. at 465. Judge Kaufman rejected this argument by observing that New York could permit Heilman to create a privilege (or not) as New York saw fit. *Id.* Although this is not a particularly compelling argument for allowing Heilman to create a privilege, since the court cited no New York authority allowing a privilege in these circumstances, Judge Kaufman moved on to a better-reasoned justification.

The second argument against allowing Heilman to create a privilege was that unlicensed persons should be given an incentive to become licensed as attorneys, and removing the privilege from unlicensed persons would fulfill this purpose. Here, Judge Kaufman first observed that New York imposed criminal penalties for the unauthorized practice of law, and this should be incentive enough to become licensed when necessary. Then the court reasoned that to require licensing in Heilman's case would be nearly impossible. For in-house counsel, it commonly will be the case that corporate business dealings could require involvement in numerous states (Heilman's employer had operations in 35 states). Heilman himself spent approximately 50 percent of his time outside New York while working on the prior litigation. Judge Kaufman reasoned that if in-house counsel were required to apply for licenses in each state in which they must conduct business, they would have to devote themselves "almost entirely to studying for bar examinations." *Id.* at 466. The court realized that to require Heilman to be licensed in New York would elevate form over substance and ignore the realities facing in-house counsel in large corporations. *Id.*

The pragmatic reasons underlying Judge Kaufman's decision in *Georgia-Pacific Plywood* apply with even greater force today than they did in the 1950s. The practice of law has without question become more national and international. Corporate law departments are extensive, practice in sophisticated fields, and are routinely involved in litigation and nonlitigation matters. The question is whether a case like *Georgia-Pacific* would be decided in the same way if the same challenge were to be made today.

At least one recent case from Florida, a state known for strict enforcement of its unauthorized-practice laws, suggests that—even today—in-house counsel will be afforded the ability to create and protect an attorney-client privilege so long as he or she is currently licensed somewhere. In *Florida Marlins Baseball Club, LLC v. Certain Underwriters at Lloyd's*, 900 So.2d 720 (Fla. Dist. Ct. App. 2005), the baseball club's insurer sought access to documents prepared by the club's in-house lawyer. The insurer claimed that the documents were not protected by the attorney-client privilege because the in-house lawyer was not properly licensed in Florida. *Id.* at 721. The Florida District Court of Appeals rejected the insurer's claim, concluding that the requested documents were protected by the attorney-client privilege because the in-house lawyer was properly licensed in another state and "the attorney-client privilege protects communications on legal matters between corporate in-house counsel and corporate employees." *Id.*

Pennsylvania, like many states, now has eliminated one of the main practical problems with licensing. As part of the multijurisdictional practice amendments, Pennsylvania permits in-state legal activities that are not systematic or continuous. Pa. R. Prof'l Conduct 5.5(b)(1). But by expressly requiring in-house counsel to have a limited license if they maintain an office (or systematic and continuous presence) in Pennsylvania, Pennsylvania places conditions on the ability to provide legal services in Pennsylvania. Pa. Bar Adm. R. 302(a). Without a license, an in-house lawyer based in Pennsylvania has a potential (but nevertheless remote) risk of being found to be involved in the "unauthorized practice of law."

A court examining this issue today could potentially conclude that, if an in-house lawyer is engaged in the unauthorized practice of law, he is not entitled to create an attorney-client privilege. This is particularly true for an in-house lawyer who has an office in Pennsylvania but is not licensed there, because the test is so easy to apply. In order to avoid the risk that communications with in-house counsel are not privileged, it would be a prudent step for in-house counsel to

seek limited admission under Pennsylvania Bar Admission Rule 302.

At least in the example of Pennsylvania, the in-house counsel license provides a very important argument against those seeking to undermine privileged communications predating the license. Once a limited license is received, services rendered during the period of time that the inside counsel was "practicing law" in Pennsylvania are *deemed* to be the *authorized* practice of law. Accordingly, all prior communications (if otherwise qualified for the privilege) would be supported by a connection to a lawyer engaged in the authorized practice of law. Indeed, it appears that one purpose of Rule 302(g) is to eliminate any cloud over legal activity occurring before the in-house counsel receives his or her limited license.

CONCLUSION

Although the Virginia bar's investigation of Smithfield Foods' general counsel and the North Carolina indictment of two Georgia lawyers for the unauthorized practice of law can be likened to lightning bolts from the sky, the rarity of those examples would be little solace to an in-house counsel or corporate client who is struck in the future. And, while union-generated investigations of corporate counsel may be rare, there is an ever-present risk that the admission status of corporate counsel will be investigated and revealed, especially as the issue becomes more popular among corporate watchdogs and other critics.

Through Bar Admission Rule 302, the Supreme Court of Pennsylvania has reached out to accommodate in-house counsel, acknowledging that such counsel practice in a context that should not require general admission to the bar. In particular, the limited admission rule reflects an appreciation that reciprocal admission is not always available, nor is it a simple process in all cases, particularly for in-house counsel who have been extremely mobile and who have not been admitted in each jurisdiction in which they resided. In addition to providing a streamlined way for in-house counsel to gain limited admission, Pennsylvania Bar Admission Rule 302 will provide a current and retrospective basis for a privilege to be asserted regarding communications to and from such counsel. Many other states have similar vehicles for admission. Bar-licensing compliance is an item well worth adding to every law department's compliance checklist.

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NOTES

1. *See, e.g.,* "Smithfield's General Counsel Becomes Focus of Union Drive," *The Wall Street Journal*, page B9 (August 16, 2006); "Virginia Bar Investigating Smithfield Foods Executive," *The Virginian-Pilot* (August 17, 2006).
2. Michael Horne, *Unlicensed Corporation Lawyers Found* (Oct. 17, 2006), http://www.milwaukeeworld.com.
3. Eleven states have adopted a form of ABA Model Rule 5.5, which expressly exempts in-house counsel from special licensing, and two states exempt in-house counsel via other means. *See* http://www.acca.com/admissionRules/index.php.
4. Each attorney admitted in Pennsylvania can be found in the disciplinary board's web site. *See* http://www.padisciplinaryboard.org. The site is updated monthly and provides information regarding the admission status of each Pennsylvania-licensed attorney, including whether the attorney is admitted generally or pursuant to the in-house license.
5. ABA Model Rule of Professional Conduct 5.5(d) provides: "A lawyer admitted in another United States jurisdiction and not disbarred or suspended from practice in any jurisdiction, may provide legal services in this jurisdiction that: (1) are provided to the lawyer's employer or its organizational affiliates and are not services for which the forum requires pro hac vice admission; or (2) are services that the lawyer is authorized to provide by federal law or other law of this jurisdiction."
6. Most states are following the approach that in-house counsel be given the opportunity to request limited admission when the counsel are already admitted generally elsewhere. The American Association of Corporate Counsel monitors bar admission requirements for in-house counsel and maintains a current listing of each state's position on the matter and requirements for admission. *See* http://www.acca.com/admissionRules/index.php.
7. For example, the in-house lawyer could draft a representation agreement that defines the specific items on which he or she will represent the individual, along with a statement of how that item relates to the business interests of the corporation. *See* Pa. R. Prof'l Conduct 1.2(c) ("A lawyer may limit the scope of the representation if the limitation is reasonable under the circumstances and the client gives informed consent."); *Id.* at 1.13(e) ("A lawyer representing an organization may also represent any of its directors, officers, employees, members, shareholders or other constituents, subject to the provisions of Rule 1.7.").
8. *See* Pa. R. Prof'l Conduct 1.13(e); Pa. Bar Ass'n, Formal Ethics Op. 2006-200 (July 26, 2006) (Representing a Corporation and Its Constituents).
9. In unclear cases, in-house counsel have the option of seeking an advisory opinion from the Committee on Legal Ethics and Professional Responsibility of the Pennsylvania Bar Association. Most other states have similar vehicles for obtaining guidance on ethics issues.
10. Pennsylvania Rule of Professional Conduct 5.5(c) provides: "A lawyer admitted in another United States jurisdiction or in a foreign jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services on a temporary basis in this jurisdiction that: (1) are undertaken in association with a lawyer who is admitted to practice in this jurisdiction and who actively participates in the matter; (2) are in or reasonably related to a pending or potential proceeding before a tribunal in this or another jurisdiction, if the lawyer, or a person the lawyer is assisting, is authorized by law or order to appear in such proceeding or reasonably expects to be so authorized; (3) are in or reasonably related to a pending or potential arbitration, mediation, or other alternative dispute resolution proceeding in this or another jurisdiction, if the services arise out of or are reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice and are not services for which the forum requires pro hac vice admission; or (4) are not within paragraphs (c)(2) or (c)(3) and arise out of or are reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice." Pa. R. Prof'l Conduct 5.5(c).
11. In fact, the reciprocal rule is written in a way that could prevent the admission of in-house counsel. For example, Rule 204(4) requires the applicant to prove that he or she has been devoted to the practice of law in one or more states in five of the last seven years. Pa. Bar Adm. R.

204(4). But an in-house applicant would be disqualified from using time spent, pre-admission, in Pennsylvania because this would be considered the "unauthorized practice of law." *See id.* "The term 'practice of law' shall not include providing legal services . . . when such services as undertaken constituted the unauthorized practice of law. . . ." *Id.*

Oddly enough, if in-house counsel wish to seek reciprocal admission but are barred by this specific problem of qualifying years of practice, one could first apply for the limited license. Pursuant to Rule 302(g), the prior years of practice in Pennsylvania would then be deemed to be the authorized practice of law. Pa. Bar Adm. R. 302(g) ("Prior to the effective date of this rule, when an attorney performed legal services in this Commonwealth solely as an employee of a business organization, . . . the rendering of such services shall be deemed for all purposes to have been the authorized active engagement in the practice of law in this Commonwealth . . . ."). Then, those years potentially could be used to convert the limited license into a general license, so long as all the other requirements are fulfilled.

12. *See, e.g., Sperry v. State of Florida*, 373 U.S. 379, 385 (1963) (federal law preempts state licensing requirements if they obstruct exercise of federal privilege).
13. The court prohibited Surrick from having an exterior sign advertising his practice; required that all stationery, business cards, and other documents delineate that his practice is limited to the United States District Court for the Eastern District of Pennsylvania; precluded Surrick from providing legal advice on state law matters; and required Surrick to inform all persons seeking his legal services that he is admitted only before the Eastern District, not the Supreme Court of Pennsylvania. *See Surrick*, 2005 WL 913332, at *12.
14. In *Office of Disciplinary Counsel v. Marcone*, 855 A.2d 654 (Pa. 2004), the Supreme Court of Pennsylvania dealt with an attorney who, while suspended from practicing law in Pennsylvania state courts, nevertheless continued to practice law in the Eastern District of Pennsylvania. The court found the attorney to be in contempt of the court order imposing his suspension and ordered him not to hold himself out as an attorney within Pennsylvania until such time as he was readmitted to practice in Pennsylvania.

    Although the federal system obviously operates independently and has separate disciplinary processes, in *Marcone* the Supreme Court of Pennsylvania was unwilling to allow the suspended attorney to end-run the Pennsylvania disciplinary process by holding himself out as a lawyer to clients with claims before federal courts located in Pennsylvania. Recently, a judge in the Eastern District agreed with the Pennsylvania Supreme Court and likewise barred the attorney from practice in that judge's courtroom. *Sherman v. Sun East Fed. Credit Union*, No. 04-5787, slip op. at 16 (E.D. Pa. Mar. 16, 2005). However, in *Surrick*, the Third Circuit expressly declined to follow *Marcone*, stating: "It is difficult to conceive of a matter that appears to jeopardize concepts of comity more than the case presently before us." 449 F.3d at 534.
15. The applicant also must aver that the business is not engaged in providing legal services. This is to prevent lawyers in outside law practice from using the limited counsel rule as a means of becoming admitted in Pennsylvania.
16. The Board of Law Examiners' web site contains a limited license application. http://www.pabarexam.org/Application_Information/Applications/302_Application.htm.
17. The case of Pennsylvania-based foreign legal counsel presents a particularly difficult issue. Under a direct reading of the rule, such counsel are not entitled to the limited in-house counsel license because they are not admitted to any state bar, as required by Rule 302(d)(2). If such counsel do not qualify for reciprocal admission pursuant to Bar Admission Rule 205 (for foreign attorneys seeking general admission), they could potentially seek licensing as a foreign legal consultant pursuant to Bar Admission Rule 341. Both of these rules are somewhat complex, however, and it would probably be worthwhile to ask the Board of Law Examiners to consider the special situation of in-house foreign counsel, which does not seem to have been considered in Rule 302.

18. The Supreme Court traditionally did not seek to exercise disciplinary jurisdiction over attorneys or others not admitted to the bar in Pennsylvania. *See* Pa. R. Disp. Enf't 201(a) (describing the jurisdiction of the Supreme Court and the Board). A disciplinary complaint against such a lawyer would be administratively dismissed by the Disciplinary Counsel for lack of jurisdiction. *Id.* at 208(a)(2), 208(a)(3). Now, pursuant to Rule 8.5, such lawyers are brought within the court's disciplinary jurisdiction. It is possible that, in an instance such as this, Disciplinary Counsel would refer the matter to the appropriate district attorney for investigation. In *Marcone*, however, the Supreme Court showed a willingness to reach out and assert jurisdiction over attorneys who have been suspended from practice and who claim to practice in Pennsylvania pursuant to a separate licensing authority. *Office of Disciplinary Counsel v. Marcone*, 855 A.2d 654 (Pa. 2004) (finding lawyer in contempt of suspension order where lawyer held himself out as practicing in federal court exclusively).

19. *See* Pa. Bar Adm. R. 302(g) ("When a license is required under this rule for the performance of legal services in this Commonwealth solely for an attorney's employer, the performance of such services by the attorney shall be considered to be the active engagement in the practice of law for all purposes and shall subject the attorney to all duties and obligations of active members of the Pennsylvania bar including, but not limited to . . . the Rules of Continuing Legal Education.").

20. For example, for lawyers who practice in-house in California but are not admitted to the California bar, the new California rule offered a window of opportunity to register without having to take the California bar. The window of "amnesty" closed on May 15, 2005, leaving such counsel potentially subject to prosecution by the bar. Likewise, when New Jersey adopted a new in-house counsel rule, effective January 1, 2004, it contained a three-month "amnesty" period through March 31, 2004, after which in-house lawyers might be referred to disciplinary authorities.