

DRAFT #10: For 07/21/17 COPRAC Meeting

13-0004 Collecting Unpaid Fees

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ISSUE: To enforce an uncontested default judgment against a former client for unpaid legal fees, may an attorney use information concerning the client's assets and bank accounts that the attorney received during the course of the attorney's representation to levy upon or collect against those assets and accounts?

DIGEST: Information about a client's assets and bank accounts acquired by virtue of the attorney's representation of a client is generally confidential within the meaning of Bus. & Prof. Code § 6068(e) and cannot be used or disclosed by the attorney. Evidence Code § 958 may provide an exception to this general rule, permitting an attorney for purposes of establishing the amount and entitlement to an unpaid legal fee to reveal otherwise confidential information as reasonably necessary to establish the claim. However, where the client does not contest the attorney's claim it is unlikely that disclosure of more than a *de minimus* amount of otherwise confidential information would be reasonably necessary to establish the claim. Once the default judgment is entered against the client, the claim is established and the purpose for the evidentiary exception to nondisclosure is satisfied. Because no exception to confidentiality then applies, the attorney may not use the client's confidential information to collect the judgment. Like any judgment debtor, an attorney may enforce the judgment through post-judgment collection procedures, including post-judgment discovery, but may not use or disclose client's previously acquired confidential information in so doing.

AUTHORITIES

INTERPRETED: Bus. & Prof. Code § 6068(e)
Rule 3-100
Evid. Code §§ 952, 954, 958

STATEMENT OF FACTS

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Attorney represents Client in an action in which substantial amounts of Client's banking, asset and financial information is relevant. Such information is provided to the Attorney by the Client and is also obtained through subpoenas from banks and other financial institutions through discovery in the action. During the course of the representation, Client tells Attorney that he has additional assets, but has transferred them to shell companies to keep them out of the reach of his creditors. Those assets are not relevant to the action in which Attorney represents Client and no information concerning them is produced or used to litigate the case.

Attorney is representing Client on an hourly basis and submits monthly bills to the Client, who, for the most part, pays them promptly by check. As the representation is nearing conclusion, Client runs out of money and does not pay Attorney's last three invoices. Client does not dispute the amount of the invoices or the Attorney's right to payment, but simply does not pay them. At the conclusion of the matter, Attorney files suit against Client. Client does not respond to the complaint or assert a defense to Attorney's right to payment of the amount demanded in the complaint. Attorney obtains a default judgment against Client for the balance remaining due on Client's account. Client does not contest the entry of judgment and takes no steps to appear or challenge entry of the judgment. Client does not voluntarily pay the judgment.

May Attorney: (1) Use or disclose the banking and financial information provided in the accounting action in which Attorney represented Client to levy upon or encumber Client's assets to enforce the judgment? (2) File a complaint or take other actions against Client seeking to reach the assets Client transferred to shell companies? (3) Use or disclose the banking account number and financial institution information reflected on the checks used to pay Client's invoices from Attorney to levy on the account?

DISCUSSION

Is the Banking, Asset and Financial Information Received by Attorney Confidential Information Subject to the Attorney's Duty of Confidentiality?

The first step in determining whether Attorney may use or disclose the banking, asset and financial information received from Client during the representation is to determine whether it is privileged and/or confidential. An attorney's duty of confidentiality is a core aspect of the attorney-client relationship. The duty, well recognized as a "very high and stringent one," imposes on the attorney an obligation to "maintain inviolate the confidence, and at every peril to himself or herself to preserve the secrets, of his or her client." Cal. Bus. & Prof. Code § 6068(e)(1); *Flatt v. Superior Court*, 9 Cal. 4th 275, 289 (1994). "Secrets" in this context include "information obtained by the lawyer during the professional relationship, or relating to the representation, which the client has requested to be inviolate or the disclosure of which might be embarrassing or detrimental to the client." COPRAC Form. Opns. 1993-133, 1988-96, 1986-87, 1981-58 and 1980-52; Los Angeles Bar Ass'n Opns. 386 (1980), 436 (1985), 452 (1988) and 498 (1999); *Wutchumna Water Co. v. Bailey*, 216 Cal. 564, 574 (1932) (lawyer may not "use against his former client knowledge or information acquired by virtue of the previous relationship"). Rule 3-100 prohibits an attorney from revealing information protected by Business & Professions Code § 6068(e)(1).

Confidential information includes attorney-client privileged information, but protects a much broader scope of information than the more narrow privilege. *See* COPRAC Form Opn. 2016-195. Unlike the attorney-client privilege, for example, confidential information may not be revealed regardless of the source of the information. Rule 3-100, comment 2 (“The principle of client-lawyer confidentiality applies to information relating to the representation, whatever its source, and encompasses matters communicated in confidence by the client, and therefore protected by the attorney-client privilege, matters protected by the work product doctrine, and matters protected under ethical standards of confidentiality, all as established in law, rule and policy.”); Los Angeles Bar Ass’n Form. Opn. 436 (1985). Also unlike attorney-client privileged communications, where the presence of a third party may destroy the privilege, confidential information may include any information acquired during the course of the representation, even if that information is publicly available or revealed to others. *See* Los Angeles Bar Ass’n Opn. 436 (1985); *Matter of Johnson*, 4 Cal. State Bar Ct. Rptr. 179, 189 (Rev. Dep’t 2000).

1. Client’s Financial Information Provided or Received to Litigate the Action

Here, Attorney acquired Client’s banking and asset information during the course, and by virtue, of the representation. The banking and asset information received directly from the client is both privileged and confidential. The information acquired from others through discovery in the case is also confidential because it was obtained during the course of Attorney’s representation of Client and its disclosure by Attorney to levy upon Client’s assets would be detrimental to Client. It is therefore “secret” information within Business & Professions Code § 6068(e). Thus, Attorney may not freely disclose or use the financial information provided or received to litigate the case, and may not use it to levy upon or encumber Client’s assets to enforce the judgment unless an exception to confidentiality applies.

2. Information Concerning Client’s Hidden Assets

Even though not directly related to Attorney’s representation of client in the lawsuit, the information communicated to Attorney during the professional relationship about the assets transferred by Client to shell companies to keep them out of creditors’ reach is confidential, secret, information, as disclosure of it would be embarrassing or detrimental to Client. Moreover, as the information was communicated to Attorney in confidence during the course of Attorney’s representation of Client, in addition to being confidential, it would also be privileged. Evid. Code §§ 952, 954. Thus, Attorney cannot file a complaint or take other actions against Client seeking to reach the hidden assets, unless an exception to confidentiality applies.

3. Bank Account Information From Check Used to Pay Attorney’s Invoices

The checks received by Attorney from Client to pay Attorney’s invoices reveal the Client’s bank and checking account number. Whether client payment checks are privileged under Evidence Code § 952 or confidential under Bus. & Prof. Code § 6068(e) has not been directly decided in California.

The bank account information on client checks could be considered a client “secret” if deemed to be acquired “by virtue of” the attorney-client relationship or “during the professional relationship” because disclosure of the account information to levy upon the account would be

using the information against the former client and is likely to be detrimental to the client. Whether the checks could be considered to be information independent of, and not relating to, the Attorney's representation of Client and therefore not protected in the same manner that the Supreme Court in *Los Angeles County Board of Supervisors v. ACLU* found attorney invoices outside the scope of an attorney's representation and therefore not privileged, is an open issue. *See Los Angeles County Board of Supervisors v. ACLU*, 2 Cal. 5th 282 (2016) ("Invoices for legal services are generally not communicated for the purpose of legal consultation. Rather, they are communicated for the purpose of billing the client and, to the extent they have no other purpose or effect, they fall outside the scope of an attorney's professional representation."). The *ACLU* case, however, dealt with attorney-client privilege, not the much broader ethical duty of confidentiality, and did not involve a proposed use of the invoices by the attorney against his former client, as Attorney here proposes to use the check information.

Thus, it is likely in this context that the account and bank information contained on the check are client secrets within the meaning of § 6068(e) such that Attorney could not use the bank and account information or disclose it to any third party, including a third party levying officer, unless some exception to confidentiality applies.

An Attorney Generally May Not Use Client Confidential Information

An attorney is generally not entitled to use or disclose confidential or privileged information. Business & Professions Code § 6068(e) contains two obligations: (1) to "maintain inviolate the confidence" of the client and (2) "at every peril to himself or herself to preserve the secrets" of the client. The first obligation includes more than just not communicating facts learned in the course of the representation; otherwise the second enumerated duty would be superfluous. The first requires that the attorney not do anything to breach the trust reposed in the attorney, which is a duty that goes beyond nondisclosure. *See, e.g., In re Soale*, 31 Cal. App. 144, 152-53 (1916); Calif. State Bar Opn. 1996-146; Calif. State Bar Opn. 1987-93; Calif. State Bar Opn. 1993-133; Calif. State Bar Opn. 1986-87.¹

Thus, attorneys are prohibited not only from disclosing, but also from using, a client's confidential information against the client. *Id.*; *see also Wutchumna Water Co. v. Bailey*, 216 Cal. 564, 574 (1932); *Elan Transdermal Ltd. v. Cygnus Therapeutic Sys.*, 809 F. Supp. 1383, 1387 (N.D. Cal. 1992) (Attorneys may not "use against his former client knowledge or information acquired by virtue of the previous relationship."); *Oasis West Realty LLC v. Goldman*, 51 Cal. 4th 811, 823 (2011) (duties of loyalty and confidentiality bar an attorney

¹ While most opinions and cases distinguish between the duty to maintain a client's secrets as separate from the duty to maintain a client's confidence (singular), some have used the word "confidences" (plural) as synonymous with client "secrets." *See e.g.,* COPRAC Form. Opn. 2012-183; *City and Cnty. of San Francisco v. Cobra Solutions, Inc.*, 38 Cal. 4th 839, 846 (2006) (discussing "confidences" (plural) as shorthand for "secrets" and implicating the duty of confidentiality, while also noting the separate duty of loyalty). Those opinions and cases however were focused on the duty to preserve a client's confidential information, and simply use "confidences"(plural) as synonymous with client secrets. The independent duty to maintain a client's confidence was not implicated in those opinions and authorities. Several local bar association opinions do appear to blur the line between the independent duties imposed by § 6068(e) to maintain a client's confidence and the duty to preserve client secrets, describing §6068(e) as imposing only a duty to maintain client "confidences and secrets," but those opinions appear to be against the weight of authority and inconsistent with the plain language of § 6068(e). *See, e.g.,* Los Angeles Bar Ass'n Form. Opns. 386 (1980), 436 (1985), 452 (1988) & 466 (1991).

“from *both* disclosing *or* using the former client’s confidential information against the former client” (emphasis in original)).

The duty of secrecy extends to both present and former clients. *Commercial Standard Title Co. v. Superior Court*, 92 Cal. App. 3d 934, 945 (1979); *see also Wutchumna Water Co.*, 216 Cal. at 571; *Matter of Lilly*, 2 Cal. State Bar Ct. Rptr. 473 (1993) (“The fiduciary relationship makes it improper for an attorney to act contrary to . . . the interests of his present *or former* client.”) (quoting 1 Witkin, *Cal. Procedure* (3d ed. 1985) Attorneys, § 102, p. 122 (emphasis in original)).

“In addition to not being able to directly reveal or use confidences after the termination of the relationship, an attorney may not *act* in a way which would undermine his continuing duty to protect the confidential relationship.” *Styles v. Mumbert*, 164 Cal. App. 4th 1163, 1168 (2008) (emphasis in original).

Thus, even though Attorney here no longer represents Client, Attorney’s use or disclosure of Client’s confidential banking, financial and hidden asset information against Client to collect on the Attorney’s judgment would violate both aspects of the Attorney’s duties under § 6068(e) and is prohibited, unless some exception to the duties imposed by Bus. & Prof. Code § 6068(e) applies.

Do Any Exceptions to the Duty of Confidentiality Apply Because Attorney is Attempting to Collect Attorneys’ Fee?

Although the ABA Model Code contained an exception to confidentiality permitting a lawyer to reveal confidences or secrets “necessary to establish or collect his fee . . .” (see DR 4-101(C)), that exception was removed from the Model Rules (see Model Rule 1.6) and no such exception has ever been included in California’s Rules of Professional Conduct. California, however, does have the so-called self-defense exception to privilege, as set forth in Evidence Code § 958.

Evidence Code § 958

Evidence Code § 958 is an exception to the more narrow attorney client privilege. The exception applies only to *communications* “relevant to an issue of breach, by the lawyer or by the client, of a duty arising out of the lawyer-client relationship.”

There is no similar exception to confidentiality in either the State Bar Act or Rules of Professional Conduct. Rule 3-100 (which prohibits an attorney from revealing confidential information), Discussion 2, however, indicates that the Rule prohibits disclosure “except with the consent of the client or as authorized or required by the State Bar Act, these rules, *or other law*.” (Emphasis added). Evidence Code § 958 may fall within this “other law” exception. *See also Fox Searchlight Pictures, Inc. v. Paladino*, 89 Cal.App.4th 294, 313 (2001) (the apparently absolute obligation imposed by § 6068(e) to maintain client confidences is “modified by the exceptions to the attorney-client privilege contained in the Evidence Code”)

Assuming that the exception does apply to confidential information, the scope of permissible disclosure or use under § 958 is generally limited to that necessary to effectuate the purpose of the exception. The purpose of the exception “is to avoid the injustice of permitting ‘a client

either to accuse his attorney of a breach of duty and to invoke the privilege to prevent the attorney from bringing forth evidence in defense of the charge or to refuse to pay his attorney's fee and invoke the privilege to defeat the attorney's claims.'" *People v. Ledesma*, 39 Cal. 4th 641, 695, 698 (2006) (quoting Recommendation Proposing an Evidence Code (Jan.1965), 7 Cal. Law Revision Com. Rep. (1965), p. 176). Thus, section 958 permits disclosure only to the extent necessary to respond to an issue raised by the client dispute. *See* Los Angeles Bar Ass'n Formal Opn. 498 (1999) (Evidence Code § 958 permits disclosure only of information "reasonably necessary to support the attorney's position"); *McDermott, Will & Emery v. Superior Court*, 83 Cal.App.4th 378, 383-84 (2000) (attorney may disclose otherwise privileged information "to the extent necessary to defend against the action"); *Brockaway v. State Bar*, 53 Cal. 3d 51, 63 (1991) (Section 958 "is not a general client-litigant exception allowing disclosure of any privileged communication simply because it is raised in litigation." (Emphasis in original.)); *Matter of Dixon*, 4 Cal. State Bar Ct. Rptr. 23 (Rev. Dep't 1999) (scope of permissible disclosure under § 958 is limited to what is essential to preserve the attorney's rights).

Under § 958, the exception applies only to privileged communications "relevant to an issue of breach." That phrase is not defined in the Evidence Code. "Relevant evidence" under the Evidence Code, however, is "evidence, including evidence relevant to the credibility of a witness or hearsay declarant, having any tendency in reason to prove or disprove any disputed fact that is of consequence to the determination of the action." Evid. Code § 210. The question here is whether asset information useful to collecting a judgment is information "relevant to an issue of breach" and therefore within the exception. The Client here has certainly breached the agreement by not paying the fee and Attorney is entitled to reveal the information necessary to establish the uncontested claim for payment of the unpaid fees. However, once judgment is entered, there is no disputed fact that is of consequence to determining the attorney's action because the matter has been adjudicated. Even if Client did contest Attorney's claim, evidence of collectability or Client's financial information or assets would be irrelevant to, and generally inadmissible in, Attorney's breach of contract action against Client. Once the judgment against Client was entered, all contractual rights and obligations between the parties are extinguished. "When a party recovers a judgment for breach of contract, entry of the judgment absolves the defendant of any further contractual obligations, and the judgment for damages replaces the defendant's duty to perform the contract. ([Citation.]) Upon entry of judgment, all further contractual rights are extinguished, and the plaintiff's rights are thereafter governed by the rights on the judgment, not by any rights which might have been held to have arisen from the contract. ([Citation].)" *Tomaselli v. Transamerica Ins. Co.*, 25 Cal. App. 4th 1766, 1770 (1994). Thus, once judgment is entered, Client is no longer in breach and no "issue of breach" remains outstanding.

The Court in *In re Rindlishbacher*, 225 B.R. 180 (B.A.P. 9th Cir 1998) held that § 958 does not apply to permit an attorney who is owed a fee to file a nondischargeability complaint against the Client based on hidden asset information learned by the attorney during the representation.² This

² The holding of that case appears at odds with an earlier opinion of the Los Angeles County Bar Association Professional Responsibility and Ethics Committee. That Opinion addresses former bankruptcy counsel's efforts to collect from the debtor the attorney's unpaid fee, including whether the attorney can exercise the rights of a creditor in the bankruptcy case, whether the attorney can use non-confidential client information concerning the client's assets in the exercise of his rights as creditor, and whether the attorney could use confidential asset information to

is because “[a] debtor's pursuit of a discharge is not a breach of the duty to pay; it is a right provided by the Bankruptcy Code. By seeking a discharge the client does not in any way call into question the validity of the attorney's fee or the attorney's actions. He merely seeks to obtain a benefit that the law allows. Because there is no breach of duty by the client, and no claim against the attorney which the attorney must in fairness be permitted to defend, the exception to the confidences rule for disclosure of communications necessary to allow the attorney to collect a fee does not apply.” *Id.* at 184. The *Rindlishbacher* court found an attorney breached his ethical duties and the attorney-client privilege by filing an adversary proceeding to deny his former client’s discharge. The proceeding was based on the client’s failure to disclose certain rental income – a fact the attorney learned during the course of his prior representation of client. Although the attorney claimed that he had verified the facts independently of the confidential information, the Court still held the proceeding improper. *Id.* at 184-85 (“Allowing an attorney to circumvent the confidences rules by independent verification would defeat that purpose and could make clients reluctant to be fully forthcoming in their discussions with their attorneys.”)

Unlike the client in *Rindlishbacher*, Client here has breached a duty to pay and is not simply availing itself of a right under the Bankruptcy Code. On the other hand, like the client in *Rindlishbacher*, Client here has not called into question the validity of the attorney’s fee or the attorney’s actions. To the contrary, Client has allowed an uncontested default judgment to be entered against him. Once an uncontested default judgment has been entered in Attorney’s favor, there is no issue of breach that remains to be resolved and there is no need to submit any evidence to establish Attorney’s claim or client’s defense. Nor is there reason “to prove or disprove any disputed fact that is of consequence to the determination of the action.” Evid. Code § 210. The reason for the evidentiary exception to privilege provided by Evidence Code § 958, then, is not present. *See In re Rindlishbacher*, 225 B.R. at 183 (“The idea behind the exception to the confidences rule for collection of an attorney's fee is that the client has breached a duty by failing to pay, and the attorney must be able to defend himself against the client's charges of attorney misconduct. In other words, the client puts the attorney's actions in issue and, in fairness, the attorney must be allowed to defend, even if that defense involves the use of communications that the attorney would otherwise be bound to maintain as confidential.”); *see also* Cal. Prac. Guide, *Professional Responsibility*, Ch. 7-B, § 7:126 (Rutter Group 2014) (“Information protected under Bus. & Prof. C. § 6068(e)(1) may be disclosed as necessary to pursue an action for fees *if the claim is contested.*” (emphasis added)); Evid. Code § 958, Law Revision Commission Comments (“It would be unjust to permit a client . . . to refuse to pay his attorney’s fee and invoke the privilege to defeat the attorney’s claim.”). Here, Client has not invoked the privilege to defeat the Attorney’s claim but has instead allowed a default judgment to be entered against him.

pursue his rights as a creditor. *See* L.A.C.B.A., Prof. Resp. and Ethics Comm., Form. Opn. No. 452 (November 21, 1998). The Committee concluded the attorney could file a claim, an adversary proceeding to contest dischargeability of his debt and otherwise seek to enforce his debt in the bankruptcy. However, the attorney could not cooperate with other creditors and the trustee to marshal assets - many of which the attorney learned as a result of his representation of the client. This is because such collective collection efforts do not fall within an exception to the attorney’s duty to maintain inviolate her clients’ secrets. In terms of using information to enforce the debt to the attorney, the Committee found (1) the attorney was barred by 6068(e) from using any information - whether privileged or secret - unless an exception to § 6068(e) applies; (2) Evidence Code § 958 is an exception and applies to both “confidences and secrets” under 6068(e); and (3) the attorney could therefore use the information, but only to the extent necessary to litigate the fee collection action in the bankruptcy.

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Moreover, the exception to privilege provided by § 958 applies only in the proceeding in which an issue of attorney or client breach is being determined. *See Styles v. Mumbert*, 164 Cal. App. 4th 1163, 1169 (2008). Because § 958 provides for an *exception* to privilege, not a waiver of privilege, once the proceeding in which the exception applies is adjudicated and no issues of consequence to a determination of the merits of the attorney's action can be disputed, there seems little basis to conclude that the privilege does not remain intact. *See People v. Ledesma*, 39 Cal.4th 641, 695 (2006) (under Evid. Code, § 958, "the attorney-client privilege continues to apply for purposes of retrial after otherwise privileged matters have been disclosed in connection with habeas corpus proceedings"); *In re Miranda*, 43 Cal.4th 541, 555 (2008) (by raising ineffective assistance of counsel, former client "did not *waive* the privilege, he merely triggered an *exception* to it that is not applicable in future proceedings" (emphasis in original)); *see also Bittaker v. Woodford*, 331 F.3d 715, 716-723 (9th Cir. 2003)" (en banc) (waiver of the attorney client privilege by petitioner in an ineffective assistance of counsel case extends only to that litigation, and not for "all time and all purposes").

Thus, under the facts presented here – where Client does not contest the action and the fee contract has been extinguished and merged into a judgment against Client – § 958 would not permit attorney to use confidential or privileged information to enforce Attorney's judgment against Client.³

CONCLUSION

An attorney may not use or disclose information concerning a client's financial or asset information acquired during the professional relationship with client to collect on a judgment against client for unpaid fees. While an attorney is permitted to use or disclose client confidential information to establish a claim for unpaid fees against a former client, an attorney may do so only to the extent necessary to establish the claim. Once the claim is established, the reason for the exception to confidentiality is satisfied. Like all judgment debtors, attorneys may use post-judgment collection procedures to collect a judgment against a former client, but may not use or disclose confidential financial and asset information acquired during the professional relationship to do so.

This opinion is issued by the Standing Committee on Professional Responsibility and Conduct of the State Bar of California. It is advisory only. It is not binding upon the courts, the State Bar of California, its Board of Trustees, any persons, or tribunals charged with regulatory responsibilities, or any member of the State Bar.

³ This conclusion is consistent with that reached by the North Carolina State Bar Ethics Committee in its 2016 Formel Ethics Opinion 4, holding that confidential financial information obtained through an attorney's representation cannot be provided to the sheriff to assist with execution on a default judgment for unpaid legal fees because, after judgment is entered, the purpose for the self-defense exception is satisfied and it no longer applies.