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Inside

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CORPORATE COUNSEL SECTION
30th YEAR

Message from Chair

It's 100 degrees outside on this sunny, hot July day as I compose this message and reflect on the events of the first half of 2011. One of the Section's accomplishments of which I am proudest is the growth of our Kenneth G. Standard Internship program. Supported primarily by your dues and the generous support of our host companies, we were able to offer eight law school students from New York law schools paid in-house internships at AllianceBernstein, Con Edison, FINRA, Pepsi, Pfizer and the USTA. We also were able to fully sponsor an intern at InMotion, a non-profit organization providing free legal services to low-income women. This year, we are sponsoring our largest group of interns as we see our intern alumni growing to almost 50 past participants. These are 50 young men and women whose lives the Section and your support of the Section have impacted in a positive way. Look for an article about the Diversity Internship Reception (held in late July) in upcoming NYSBA publications and visit our Section's website to view pictures of the event.

And speaking of our website—we have been very busy upgrading it. We now have videos on the site primarily focusing on *Inside*, with authors of some articles providing additional insights and valuable information—so please take a few moments to watch. Our

Inside

Editors: Janice Handler and Allison B. Tomlinson

SPECIAL LITIGATION EDITION

technology committee also has established our group on LinkedIn. If you have not joined our LinkedIn group, please do so as we'll be providing updates and valuable information through that site. We'll also be developing the opportunity for you to network with other Section members and exchange information on legal issues you are facing in your practices.

This past June we held our first member appreciation and networking event at an outside venue (the Empire Hotel) and it was huge success. The event lasted for several hours with members enjoying free drinks and hors d'oeuvres. We hope you'll join us for upcoming events we have planned during October and November.

As we turn to the Fall, let's be thankful that the heat wave is over and the leaves are just starting to change colors. And, if it's Fall it is time once again for our 4th Annual Corporate Counsel Institute focusing this year on Critical Issues, Fresh Ideas and Best Practices for in-house counsel. The Institute will be held on October 27th at the Park Central Hotel in New York City. This all day program will feature exciting speakers, lively discussion and at least 8 hours of CLE credit to be followed by a cocktail reception. Members who are unable to attend the program are invited to attend the reception. We also are planning a celebration commemorating the 30th Anniversary of the Section with more details to follow.

In closing, I wanted to take a moment to welcome three new members to our Executive Committee: Cynthia Beagles (The American Kennel Club), Joy Echer (Foot Locker), and Andrew Mannarino (FBR) and to remind each of you to reach out to me or any member of the Executive Committee if you'd like to become more involved in the Section.

Greg Hoffman

An Overview on Litigation Management for In-House Counsel

By Joseph Drayton

The aim of this article is to (1) provide a brief orientation for those transitioning to an in-house litigation position from private practice or governmental litigation, and (2) outline a road map for handling a litigation matter as an in-house litigation counsel. Several of my colleagues have made the transition from governmental or private litigation practice to an in-house litigation counsel position and have communicated the stark difference in the nature of their work. Of course, their litigation skills and experience are a pre-requisite for the position but, once in-house, they find that other skills and priorities are essential to their success. Hopefully, new in-house counsel or those seeking to make the transition will benefit from the discussion below.

"'Although you were hired as a lawyer, you must learn to think like a business person…'"

Understand the Business of Your Client

"Although you were hired as a lawyer, you must learn to think like a business person," explains Taa Grays, in-house counsel with MetLife. A first step is to learn the business of your company and to get to know the business executives that operate it. Your aim should be to thoroughly understand the corporate entities that you represent and how to best present them in the context of litigation.

Stay Aligned with the Business

In-house litigation attorneys are routinely working on numerous litigation matters and must juggle the management of those matters. When a new matter comes across your desk, you should have a checklist of items for your immediate attention. Prioritize your matters and the tasks associated with them. "Having a strong understanding of the business, the significant issues your client faces, and your client's goals and objectives," Grays further explains, "enables you better analyze and prioritize the matters you handle." Regularly touch base with your client and your manager to keep your priorities aligned with the business risks associated with each of your litigation matters. If you keep a prioritized to-do list, you will be more productive and positioned to readily identify any task that has lingered unaddressed for too long. Ultimately, if you are well-organized and cognizant of the business risks, you will be prepared to address inquiries from your supervising counsel or business executives.

Litigation Road Map

In-house litigation counsel should prepare a preliminary road map for the case. This road map will assist in fostering strategic meetings with outside counsel and maintaining your prioritized to-do list, as discussed above. If your company is a plaintiff in a lawsuit, take time to draft a roadmap with outside counsel so that all parties share the same understanding as to direction and goal of the litigation. Whether plaintiff or defendant, make good use of the information that you have in your initial pleadings: the adversary, the counsel for the adversary, the basis for the dispute and the jurisdiction. This information will be helpful to your assessment of the case.

It is important that, in the early phases of a litigation, in-house counsel stay ahead of the outside counsel's learning curve in order to be best positioned to direct outside counsel. As part of your road map, determine if the case is (1) ripe for early dismissal, (2) indemnified by another party or (3) covered by insurance. You should research the relevant parties and identify the relevant business persons central to the litigation. In today's world of electronic information exchange, information is preserved but not necessarily the memories of key employees. Thus, you should contact the key witnesses as early as possible as part of your initial factual investigation and, where advantageous, take steps to preserve an employee's understanding of key events before the memories fade.

You should prepare a preliminary evaluation of the scope of the case and how the key players relate to the various issues underlying the claims asserted. You should determine if you may be vulnerable to an amended complaint with additional claims and whether your company has any counterclaims or affirmative defense. Some key questions are: "How does the case affect my business?" and "Does the case present broader concerns for the business that are not apparent to your adversary?" For example, a case may be limited in scope, jurisdiction and exposure but contain issues that if decided against your corporation could result in issue preclusion and/or additional litigation with a greater impact on your company's bottom line.

Selection of Outside Counsel

At times, litigation in-house counsel does not have a choice in the selection of counsel as your company may have preferred law firms or attorneys on retainer for particular matters. In those instances, the choice of outside counsel has been made for you. If you have the discretion to select outside counsel, be certain to research and choose the best attorney to suit the needs of the case as well as your corporate culture. Your outside counsel can significantly impact the outcome of a litigation matter; therefore, you must be confident in your outside counsel's ability and resources. Your outside counsel should have a track record of handling the subject matter or analogous subject matter. The lawyer that you anticipate handling the matter should have a stable team that can demonstrate the ability to efficiently work the litigation file. The optimal outside counsel will have familiarity with your company, your adversary or the court/judge within which you seek to file the action. If you have the authority to hire outside counsel, retain counsel that understands that they are a direct reflection on you within your corporation and your company. Ensure that your counsel does not have legal or business conflicts that might interfere with their representation of your company.

You should also make certain that your outside counsel will immediately get up to speed on the new litigation so as to render advice on your roadmap and assist with early case assessment. You should request a summary of the litigation that includes concrete advice on how to proceed. To assist with your strategic decision making, outside counsel should present options for the swift and efficient resolution of the litigation. From your internal clients' perspectives, most lawsuits represent a disruption of your business in one way or another. Thus, as in-house counsel, your goal most oftentimes will be to, where possible, put an end to the distraction of litigation.

A Meeting of the Minds

You are the lead strategist, the decision maker and a brand manager for the corporation for the litigation assigned to you. As such, you should have an active leadership role in the litigation and require that your outside counsel understand and support your internal priorities. At the outset of the engagement, you should have an initial conversation with your outside counsel to establish expectations. If you have an outside counsel policy, you should review it with them and provide specific guidance on how to interface with you in handling the case. You should request regular updates from your outside counsel so that you, in turn, can provide updates to your business executives. As your environment is fast-paced, outside counsel should communicate in a succinct and clear manner with purpose.

You should advise your outside counsel of your high expectation of responsiveness and competence. You should encourage your outside counsel to identify and communicate to you all of the potential issues raised with the litigation as you will want to make well-informed decisions regarding the litigation. However, all issues rarely warrant the full consideration of your outside counsel team. You should determine in consultation with lead counsel the issues necessary to pursue to best prosecute or defend your litigation.

The Litigation Team

In order to achieve optimal cost efficiencies and results, you should have a well-balanced and diverse litigation team. It is the in-house counsel's responsibility to ensure that the composition of the team meets this goal. As Scott Coonan, Senior Director, IP Litigation and Patents at Juniper Networks, Inc., advises,

> At Juniper, not surprisingly, we have found that an effective way to control costs is to staff cases very leanly, at least initially. It's always possible to add attorneys as the case matures and as circumstances dictate. I have been on calls with co-defendants where the other companies had four or five of their outside lawyers on the phone. That's unnecessary and irresponsible on the part of the law firm, but even more astounding that the in-house attorney managing the matter did not have better control over the staffing of the case.

You should select the lead trial attorney and approve the attorney who will be managing the case on a daily basis. You should also sign off on the core members of the litigation team who will likely participate in all aspects of the litigation. To illustrate how to assemble a balanced team, segment litigation into the following parts: (1) basic pleadings (answer, document requests, requests for admission, etc.), (2) discovery conferences, (3) document production, (4) depositions, (5) motion practice, (6) oral argument, (7) mediation and (8) trial. You should be confident that you have an attorney with the appropriate level of experience, capability and billing rate leading these very different aspects of the litigation. Of course, the team will contribute to all phases of the litigation, but you want the right people doing the heavy lifting. A balanced team will achieve the best result and be positioned to yield

the most cost efficiencies. Paul Lancaster Adams, Senior Director, U.S. Government Affairs (and formerly Associate General Counsel, Litigation), speaks firsthand to the importance of the right team:

> One thing I do when handling a significant matter, is decide early whether I need a trial attorney, litigator or both. A trial attorney looks at a case from the end game. In contrast, a litigation attorney thinks of the case as linear, with a clear beginning to end. Often, a combination of both is necessary and in such cases I believe it is even more important to clearly define responsibilities within the litigation team. Who will try the case in front of the jury? Who will be responsible for managing discovery and be the point-person for brief writing etc. These responsibilities should be assigned in the beginning to assure the matter is effectively managed.

The Litigation Budget

On an annual basis, you will have to prepare a budget for the litigation that you manage. In turn, you will need your outside counsel to create a budget for specific litigation as an input into your annual budget. As part the budget for a specific litigation, you will need to arrive at the appropriate billing arrangement for the cases—contingency, flat fee, hourly or some other creative arrangement. As an in-house litigation counsel, you will want to communicate both the risk exposure and cost to defend the litigation at the outset for your legal department and business stakeholders. The largest part of the budget, in most instances, will be discovery and trial, and you should request that your outside counsel actively think about ways to save costs. Once you have your budget for a specific litigation, you should manage the expectations of your business people and inform them that unexpected events can impact the budget both positively and negatively. As litigation is uncertain by definition, you want to minimize the surprise of an expected event.

Discovery

Your role in discovery is a vital one. You will know the company better than your outside counsel. In concert with your outside counsel, you should identify the best witnesses to testify on behalf of your company and, where possible, actively participate in the interviews of potential witnesses early in the litigation process. Be sure to attend as many of the early interviews as possible given your time and cost restraints and make the interviews of key witnesses and senior executives a priority. At minimum, you should assist with deposition preparation and attend the depositions of individuals whose testimony is essential to your case or can bind your company.

During the deposition preparation process, you should make sure that the internal business people are comfortable with the process and understand how their testimony may impact the case. You should remind them that they are testifying under oath and should be truthful. You should take the time to develop a standard set of instructions that you are confident will serve as a guidelines for your internal clients to optimally testify on behalf of your corporation. Your guidelines may include, for example, a reassurance that your client's testimony will not make or break the case or an instruction to answer questions succinctly. As in-house counsel, it is your responsibility to build and maintain solid relationships with your client and make certain that you explain the deposition process so that the client can take ownership of the process.

E-discovery has become a focal point of most large complex litigation. It is generally the most expensive part of the litigation. As a result, you will have to actively manage your e-discovery process in order to stay within budget. To assist with the creation of the road map we discussed above, you should, as part of your initial internal investigation, determine the relevant custodians and make sure, at a minimum, litigation hold notices have been issued and received.

Success with e-discovery involves, in part, having a solid relationship within your clients so that they trust your judgment. Much of the success in the e-discovery process stems from the information and cooperation that you receive from your internal clients and your Information Technology (IT) department. If you are in a position to do so, choose a few e-discovery vendors and allow them to learn your systems and your IT department in order to work with you to create a cost-effective and sound e-discovery protocol. You should have your own e-discovery group consisting of at least one or more representatives from your vendor, your outside counsel and your Information Technology department. After a while your e-discovery group will be able to help you quickly and efficiently evaluate and respond to e-discovery.

Public Communication

A large part of any major litigation is brief writing. Given that most in-house litigation counsel spend their days in meetings or on conference calls between 9 a.m. and 5 p.m., their review of draft briefs and other types of

documents will occur in the evening. If your work day is similar, you should communicate to your outside counsel early in the litigation that you need draft briefs a few days in advance of filings and possibly even more lead time for dispositive motions. In order to have sufficient time to review and sign off on submissions to the Court, have periodic meetings with your outside counsel to work backwards from filing deadlines as they arise over the course of the litigation. Extra time will allow you to mine your internal resources, and if the need arises, to put final touches on briefs and their supporting papers. Of course, sometimes you may not be able to gather all of the information from your internal clients necessary to keep this suggested schedule, but the point is to have sufficient time to approve briefs so that your company and its positions are best represented in legal filings.

You will likely not have the time to ensure that all briefs are written in your style. Nonetheless, briefs are written communications that are used to speak to the Court, your adversary, your competitors and the public-at-large. Your role will be to ensure that a brief filed in the name of your company tells the right story. It should be the story that your business executives expect to see and portrays your corporation's image consistent with its brand. Also, look for what should be the obvious—ask yourself, does this brief state why we should win or is the brief persuasive? Depending on your time and the importance of the case, you may have to re-write portions of certain briefs or, alternatively, provide general comments to ensure the briefs best represent your internal client(s).

Identification and Selection of Witnesses for Hearings and Trial

As the corporate representative handling litigation, you will know your witnesses better than outside counsel and should have the lead role in identifying and selecting witnesses to provide testimony at hearings and trial. You have to assume that any affiant or declarant will also testify as a live witness. You should find a relatively senior person who "owns" the information, presents well and is not intimidated by the legal process. If you can make the time to attend your witnesses' live testimony, they will likely be comforted by your presence. In most instances, the witness will likely not know your outside counsel very well and will be reassured that everything is going as contemplated by your active participation.

Settlement

A settlement that meets or exceeds your client's expectations is better than the risks of trial. Thus, as in-house litigation counsel, you should think about the possibilities of settlement from the outset of the case. At times, you will need to let the litigation develop to fully understand the exposure and assess the value of litigation. There are things that you can do, however, to position yourself for the best settlement for your client. First, be certain to demonstrate that you have strong and reasonable positions to the court and your adversary. Second, demonstrate that you have capable outside litigation counsel with the wherewithal to win at trial. Third, be strategic about the issues that you raise before the Court. Lastly, continually review your adversary's exposure and pressure points. If you present as a formidable, reasonable and rational adversary, you will likely promote settlement opportunities.

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How "Exacting" Must an Indemnification Clause of a Contract Be to Entitle a Prevailing Party to Attorney's Fees?

By Jeffrey Escobar

In the late summer of 2010, the Appellate Division of the First Department had passed down a unanimous decision that had the potential to have a reverberating and long-lasting effect on how indemnification language within New York contracts would be negotiated and drafted, as well as undoubtedly influence a party's choice as to whether to pursue costly litigation. In *Gotham Partners, L.P. v. High Riv. Ltd. Partnership* (2010 NY Slip Op 06149), the Panel had held that, unless an indemnification clause of a contract is "unmistakably clear" and meets the "exacting" test set forth nearly 20 years ago in *Hooper Associates v AGS Computers* (74 NY2d 487), the winning side of a dispute between two parties to a contract will not be entitled to attorney's fees, regardless of the contracting parties' original intent. In *Gotham Partners, L.P.*, the Court noted that New York has historically been distinctly inhospitable to claims for prevailing party attorneys' fees under indemnification clauses, and that the high standards of *Hooper* are typically not met where an indemnification provision does not refer specifically to attorneys' fees arising out of actions between the parties to the contract or is included in a boilerplate, universal indemnification clause.

Typically under American law, parties to litigation are responsible for paying their own legal fees. Contracting parties, however, regularly negotiate and draft indemnification clauses to include language which is intended to entitle one contracting party to reimbursement of its attorney's fees and damages from the other—regardless of whether the fees were incurred from defense of a third-party claim or its prevailing in a dispute between the contracting parties. Such universal indemnification clauses have become boilerplate language, regularly inserted into virtually every form of American contract from real estate transactions to the sale of goods, and is typically lumped, wholesale, into a singular provision or clause.

The Appellate Division of the First Department of New York sought to stem that practice by holding in *Gotham Partners, L.P.*, however, that the use of such boilerplate language was not sufficient to entitle a prevailing party to attorney's fees unless it is "unmistakably clear" that the indemnification covers the fees of the winning side of a dispute between two parties to the original contract and is not part of a universal indemnification clause. Reminding that New York State is inherently and "distinctly inhospitable" to the use of indemnification clauses to recoup attorney's fees, the Panel held that "for an indemnification clause to serve as an attorney's fees provision with respect to disputes between the parties to the contract, the provision must ***unequivocally*** be meant [and interpreted] to cover claims between the contracting parties ***rather than*** third-party claims" and must be separate and distinct from any other indemnification provision within a contract. Otherwise, the Panel held, even if an indemnification clause can be interpreted to entitle a party to attorney's fees, that indemnification clause will be void as it applies to the fees of a prevailing party to a suit between two original contracting parties.

> "[Gotham] *had the potential to have a reverberating and long-lasting effect on how indemnification language within New York contracts would be negotiated and drafted, as well as undoubtedly influence a party's choice as to whether to pursue costly litigation."*

Despite the unequivocal position of the Court, the question remains whether the Panel's decision has had the intended lasting effect and influence on the contracting parties' drafting and negotiation of such clauses and the enforcement of universal indemnification clauses by other Departments, or even has had any real effect on the already literally existing thousands of contracts in New York. The continued drafting practices of contracting parties and their counsel to insert boilerplate, universal indemnification clauses in their contracts suggests that it has not. Routinely, prevailing parties are denied attorney's fees due to the failure by their drafting counsel to separate and distinguish the entitlement of a prevailing party to attorney's fees in their indemnification clauses. Despite laying clear under *Gotham Partners, L.P.* that parties should no longer be able to negotiate and craft indemnification clauses "with an eye to extracting the essence

of a right to attorney's fees for the winning side [and that] a contract provision employing the language of a third-party claim for indemnification may not be [crafted] to encompass an award of attorney's fees to the prevailing party based on the other party's breach of the contract," regardless of the parties' original intent, contracting parties either continue to fail to recognize or choose not to address the issue within their boilerplate indemnification language.

Simply put, the risk of, in effect, waiving attorney's fees can be avoided by insisting on the insertion into a contract a separate statement to the effect that the prevailing party shall be entitled to its legal fees, costs and expenses from the non-prevailing party. By doing so, counsel can avoid head-on any question of a prevailing party's entitlement to, and the shock of being denied, attorney's fees. But, until such indemnification language is insisted upon by counsel and their clients, a party's attorney's fees will always be at risk.

"[T]he risk of, in effect, waiving attorney's fees can be avoided by insisting on the insertion into a contract a separate statement to the effect that the prevailing party shall be entitled to its legal fees, costs and expenses from the non-prevailing party."

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Picking a Winner: Ten Tips for Selecting the Best Possible Jury

By Judge Richard M. Berman and David R. Marriott

The right to a jury trial depends on the proposition that some decisions should be made by "the people." Who those people are affects the outcome of any jury trial. Indeed, the composition of the jury can be dispositive. While the make-up of the jury is largely outside counsel's control, there are nevertheless steps that can be taken to maximize the probability of selecting—or more accurately "deselecting"—a receptive and fair panel. Although there is no simple formula, this article offers 10 tips for picking the best possible jury for your case.

1. Know the Rules of the Road

Rules governing jury selection can vary widely. They differ from state to state and sometimes even within a given state. In New York, for instance, the Uniform Rules provide for two methods of jury selection—White's or Struck. Nor is there a uniform approach to jury selection in federal court, although some variant of the Struck Panel is often utilized by Federal Judges. In all courts, judges have developed their own practices and procedures concerning jury selection, some of which are unpublished, but can generally be discovered by specific request to chambers. These practices may cover the order and nature of permissible presentations, the kinds of questions that are allowed and prohibited, or the number of and manner for exercising challenges.

Not knowing the ground rules on these matters is not only a distinct disadvantage, but it can also create a bad first impression on the jury and result in a missed opportunity to shape the make-up of the panel. Knowing the rules, by contrast, puts counsel in a position to apply the rules to his or her advantage. A lawyer familiar with White's method, for instance, knows that in the first round peremptory challenges are exercised in the order in which the parties are listed in the caption, whereas in subsequent rounds, the first exercise of peremptory challenges alternates from side to side. There can be little downside in asking the trial judge about his or her jury selection approach—in advance of the trial.

2. Create a Juror Profile

No two juries are the same. But every jury pool includes some people who are more likely to be receptive to or inclined against your case. Selecting the best possible jury requires identifying the prospective jurors most likely to be receptive to or inclined against your case. You cannot promote the participation of jurors likely to be most receptive to your case or exercise challenges to jurors inclined against your case unless you can identify them.

"While the make-up of the jury is largely outside counsel's control, there are nevertheless steps that can be taken to maximize the probability of selecting—or more accurately 'deselecting'—a receptive and fair panel."

Since few jurors readily identify their predisposition and those who do are generally excused from the panel, identifying jurors' predispositions usually entails making educated judgments about the qualities (such as education, employment, hobbies and family status) that incline a person to lean one way or another, and using those judgments to guide decision-making during jury selection. For example, a lawyer representing a corporate client asserting a claim of patent infringement might conclude that she is more likely to fare well with educated jurors holding stable jobs, rather than less-educated jurors who work sporadically. In that case, counsel would seek educated jurors who are employed. While there is no single way to create a juror profile, the most common methods involve careful consideration of how jurors are likely to respond to the facts and circumstances of your case, perhaps with the help of a jury consultant in an appropriate case. That is generally a function of experience, common sense and, frankly, educated guesswork. Given the uncertainty of the enterprise, it is wise to solicit feedback from people most likely to resemble the venire. Conducting a mock jury exercise that tests the themes of your case can be very useful in this regard.

3. Put Yourself in Jurors' Shoes

The daily paper, the evening news, TV sitcoms and blockbuster movies—all offer insight into jury service. But many potential jurors have never actually sat on a jury and have little real-world experience with litigation. And even those that do typically know nothing about the parties, subject matter or facts of your case. Moreover, at least

some potential jurors have little interest in serving on a jury. Some may not see anything in it for them (at least in the short run), and jury service may be inconvenient, if not a hardship. Acknowledging this and expressing appreciation for jurors' service is not only professional, but also it can increase the probability of connecting with the jurors and prompting candid disclosure. More important still is conducting jury selection in a way that respects jurors' time and privacy, such as by avoiding unneeded repetition and steering clear of embarrassing questions. Not putting yourself in jurors' shoes runs the risk of putting jurors off and thus undermining your case before the jury is even empanelled. Jury trials are not popularity contests between lawyers, but common sense tells us that jurors are more likely to side with lawyers they can identify with and less likely to side with lawyers they dislike.

4. Use a Questionnaire

To facilitate the selection process, many courts use questionnaires to collect information from prospective jurors. In New York State Court, for example, prospective jurors are asked to fill out a form, requesting information concerning marital status and family composition; employment status and occupation; education; prior jury service; recreational activities; and involvement in civic, social, union, professional or other organizations. Other courts are willing to use questionnaires upon request, especially where all parties join in the request. Questionnaires allow counsel to elicit more information than can often be obtained efficiently through oral examination and frequently result in more candid disclosures.

A juror questionnaire is, however, only as good as the use to which it is put. If used in conjunction with a juror profile, the information provided in response to a juror questionnaire can provide valuable insights into which jurors are likely to be for you or against you. Moreover, the questionnaire and a potential juror's answers to it can facilitate further questions and follow up on sensitive subjects and thus can be the basis for exercising a challenge. Furthermore, the information provided in response to a questionnaire can also be used to frame points made in both opening statements and closing arguments. It is easy enough to learn in advance whether your trial judge utilizes jury questionnaires and to obtain copies of (precedent) versions.

5. Find and Follow a Methodology

Jury selection requires the processing of a lot of information in little time. Organization is essential. Techniques vary, but it is important to come up with a system that is simple, scalable and facilitates easy follow-up and quick decision making. One tried-and-true method is to prepare a juror worksheet by dividing a large piece of paper into as many boxes as the court will seat jurors. As prospective jurors are seated and provide information about themselves, a sticky note reflecting that information can be put in each of the boxes on the chart. Abbreviations such as "Md" for married, "S" for single or "Div" for divorced, can be used quickly to capture jurors' information. As jurors are removed from the jury box, new post-it notes can be put on top of the notes prepared for the stricken juror. The most important thing is to find a methodology you are comfortable with. Devising a comfortable methodology to organize, follow up regarding and make decisions concerning the information gathered in jury selection can go a long way toward increasing the probability of selecting the best possible jury. You can almost always obtain a brief recess from the trial judge to collect your thoughts before final jury selection.

6. Question with Purpose

In many courts, especially federal courts, counsel is often not permitted to question jurors during jury selection. In these courts, questions put to prospective jurors are asked by the court. That does not mean, however, that counsel does not have a role to play. Most judges will permit counsel to propose questions to be asked of jurors by the court. Persuading the court to ask questions that probe jurors' openness to your themes is advisable and can provide valuable information as to their openness to your position.

Lawyers permitted to question jurors have an additional opportunity to influence the make-up of the jury and jurors' perception of the case, but questioning jurors also generates additional risks. Pressing a juror for the details of an arrest or even family circumstances can cause embarrassment. As a result, it is generally advisable to question potential jurors only where necessary to achieve a specific, important purpose, such as unearthing the basis for a challenge for cause. If you cannot articulate a good reason for a given question, then it probably should not be asked—at least by you. There is no point in wrestling information from a prospective juror, especially if it is not highly likely that the information obtained will result in the juror being excused.

7. Avoid Argument on the Merits

Most, if not all, courts forbid "argument" on the merits of the case during jury selection. Lawyers are rarely, if ever, allowed to describe their legal contentions in detail, explain why their client should prevail in the case or say what jurors should or should not conclude. That is the stuff of summation or closing argument. (Lawyers are encouraged to submit to the Court a brief—and deft but fair—summary of their case for the Court to use in *voir dire*.) Moreover, jury selection is often too early in the pro-

cess for merits arguments, which are generally best received after counsel has established some credibility with the jury. That said, the line between impermissible argument and permissible introduction to the issues and the parties' positions is not always clear. Some (few) lawyers believe it is wise to come as close to the line as possible, on the theory that it is never too soon to begin winning over the jury. While lawyers may begin to introduce their theory and themes of the case during jury selection, if the opportunity arises, crossing the line into argument during jury selection is a bad idea. A sustained objection can create an early and bad impression of not playing by the rules.

8. Remember First Impressions

Jury selection is the last opportunity to make a good first impression. From the moment jury selection begins, jurors start to form opinions about the case, including the lawyers. That is true whether or not counsel seeks to make an impression. Everything said and done in jury selection affects jurors' perception of the case and jurors can be unforgiving of lawyers they perceive to play fast and loose with the rules. Jury selection is the time to begin showing jurors that you are fair and trustworthy, not that you will do anything to win. A lawyer making a good impression during jury selection is more likely to find a receptive audience during opening statements. And, bear in mind that jurors are often quite "protective" of the trial judge so it is inadvisable to challenge the Court inappropriately during jury selection.

9. Beware of "Conventional Wisdom"

"Conventional wisdom" abounds as to the "types" of jurors who are "good" or "bad" for certain cases. Some lawyers may believe, for example, that female jurors are more sympathetic than male jurors and are therefore "good" jurors for a plaintiff in a personal injury case seeking damages for pain and suffering. Others may believe that low-income jurors are more inclined than high-income jurors to mistrust law enforcement and therefore "bad" jurors for the defense in a case alleging law enforcement misconduct. While it may be unwise to ignore such stereotypes altogether, there is little empirical evidence to support them, and they should be used cautiously, if at all. There is no substitute for preparing a case-specific juror profile (based as much as possible on empirical evidence), listening carefully to jurors to figure out how they really think and feel, and exercising judgment based on the facts and circumstances of your case.

10. Use Challenges Wisely

Exercising challenges is the principal means by which trial counsel influences the composition of the jury. Challenges for cause result in a juror being excused where it can be shown that a prospective juror could not be fair and impartial, such as because she is closely related to one of the parties' attorneys, has a case pending against one of the parties, has a family member who is employed by one of the parties or has a direct financial interest in the outcome of the trial. There is no limit to the number of these challenges, but care should be taken not to stretch so far to show cause that you lose credibility with the court.

"[T]he most dangerous jurors are usually those perceived to be (unfairly) disinclined toward your case and *also likely to be leaders…"*

In contrast, peremptory challenges can be exercised on any basis, except impermissible classifications (such as race or gender). Peremptory challenges, however, are limited in number. In New York State Court, for example, plaintiffs collectively generally have three peremptory challenges plus one peremptory challenge for each two alternates. Defendants collectively (other than third party defendants) also generally have three peremptory challenges plus one for each two alternates. Check the Federal Rules of Civil Procedure and 28 USC §1870 for the number of preemptory challenges available in Federal court. Because they are limited in number, peremptory challenges must be used to strike the most "dangerous" jurors. For this purpose, the most dangerous jurors are usually those perceived to be (unfairly) disinclined toward your case *and* also likely to be leaders; such potential jurors may have the most potential for swaying a jury against your case.

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Crafting a Common Interest Agreement That's "Just Right" to Avoid Disclosure of Privileged Information in Patent Litigation

By Rory J. Radding

Introduction

Typically, patent-holders or potential infringers obtain legal opinions regarding the validity of patents they own or those which may be asserted against them. When another company considers buying or licensing those patents, or co-defendants want to analyze each other's opinions on a plaintiff's patent, they will ask to see those legal opinions ("IP opinions"). Sharing IP opinions can speed up negotiations or marshaling of defenses and lower the buyer's due diligence expenses or the co-defendant's litigation costs. However, sharing IP opinions can also result in a waiver of attorney-client privilege regarding those documents. Attorney-client privilege is what keeps communications between lawyers and clients secret; the act of sharing an IP opinion with outsiders can waive this privilege, allowing others to obtain the IP opinion and use it as a weapon in court.

How can patent-holders or defendants avoid disclosure of such agreements and the waiver of the attorney-client privilege during litigation? In some cases, a "common interest agreement" between the patent-holder and the other party or among defendants can protect against waiver.

The "common interest" rule developed from the concept that when multiple criminal defendants are tried together, the lawyers for separate defendants are allowed to discuss strategy without that discussion waiving attorney-client privilege.[1] Over time, courts have expanded this concept into the idea that attorneys for separate clients can discuss legal strategy without waiving the contents of the discussion. However, courts in different states have been very inconsistent in just how far they have extended the common interest rule. What may be a valid common interest agreement in one state may not be valid in another.

To date, articles discussing common interest agreements have ignored the fact that states treat common interest agreements in wildly diverging ways. Below are some of the differences among the states and why it is so important to select the correct state to govern the agreement.

Strict Versus Permissive

In states adopting a strict interpretation of the common interest doctrine, parties can only safely share legal information when they are actively litigating identical legal interests. Thus, according to a widely quoted decision in South Carolina, common interest agreements are only valid where parties share interests which are "identical, not similar" and "legal, not solely commercial."[2] Courts following this strict approach would likely reject common interest agreements between two companies interested in discussing the possible purchase or license of patents. Consider this strong language from a court following *Duplan*'s strict approach: "The common interest doctrine does not encompass a joint business strategy which happens to include as one of its elements a concern about litigation."[3]

The opposite point of view is exemplified by California, which has traditionally taken a permissive view of common interest agreements. As early as 1987, a California court declared that it would be in the public interest for companies to share information under common interest agreements, and specifically cited the example of a patent-holder sharing IP opinions with potential buyers and licensees.[4] Recent California opinions have emphasized that a shared interest in whether certain technology is patentable is enough for a common interest agreement to be valid.[5] A California state court concluded that active litigation is unnecessary for a valid common interest agreement; businesses may "exchange privileged information…during the negotiation of a commercial transaction."[6] And in contrast to those states requiring an "identical legal interest," a recent California decision approved of common interest agreements even when "the interests of the parties [are] adverse."[7]

Obviously, then, whether or not a common interest agreement is recognized as valid depends heavily upon which state court considers the agreement. Therefore, before negotiating a common interest agreement, a patent-holder or co-defendant should carefully select a state which is neither "too hot" nor "too cold," but rather "just right" for its particular needs.

Hypothetical Case

Let us consider a hypothetical sufficiently complex to match a real-world situation. A patent-holder, Small But Clever Company, owns important patents related to cell phone technology. Enormous Corporation is interested in investing in Small But Clever Company, and begins working with a private equity firm, Wealth LLC. Enormous Corporation and Wealth LLC sign a common interest agreement asserting that they have a shared interest in the validity of the patents. Enormous Corporation's legal team then drafts an IP opinion concluding that Small But Clever's patents are valid and do not infringe on any other patents. Enormous Corporation shares that IP opinion with Wealth LLC, and Wealth LLC invests in Small But Clever.

Then things go bad. Enormous Corporation reverses its previous plan to invest in Small But Clever, and instead launches a lawsuit, claiming that Small But Clever's patents are invalid and that they infringe upon Enormous Corporation's own patents.

Wealth LLC sues Enormous Corporation for fraud as a result of Enormous Corporation's withdrawal from the deal. Wealth LLC also signs a common interest agreement with Small But Clever, in order to coordinate a litigation strategy against Enormous Corporation.

In this hypothetical, there are two separate common interest agreements: First, Enormous Corporation shared its IP opinion with Wealth LLC under a common interest agreement. Second, Wealth LLC and Small But Clever signed a common interest agreement in order to share litigation strategy.

Let us consider this situation from the perspective of Small But Clever. Small But Clever wants its own common interest agreement with Wealth LLC to be recognized as valid. At the same time, it wants the common interest agreement between Enormous Corporation and Wealth LLC to be rejected as invalid, so that Small But Clever can make use of Enormous Corporation's original IP opinion (which states that Small But Clever's patents are valid).

Is there a state that would recognize Small But Clever's common interest agreement as valid while rejecting the agreement between Enormous Corporation and Wealth LLC?

Too Hot and Too Cold

A state with a strict interpretation of the common interest agreement might reject both common interest agreements as invalid. The agreement between Enormous Corporation and Wealth LLC would be rejected on the grounds that they were sharing information for a business purpose and there was not yet any actual litigation. Small But Clever's common interest agreement might be rejected on the basis that it does not share an "identical" legal interest with Wealth LLC. After all, Small But Clever is defending the validity of its patents in one lawsuit, while Wealth LLC is suing Enormous Corporation for fraud in another.

On the other hand, a "permissive" state like California might recognize both common interest agreements as valid. California courts have said that parties do not need to have "identical" legal interests to have a valid common interest agreement, and several California courts have upheld the validity of common interest agreements in the context of patent discussions.

"Just Right"?

New York may offer the middle ground needed by a litigant such as Small But Clever, who wants recognition limited to those common interest agreements closely tied to ongoing litigation.

New York courts have stated that common interest agreements "may not be used to protect communications that are business oriented."[8]

Thus, New York courts would likely reject the Enormous Corporation common interest agreement as business-oriented. New York courts have stated, "If the [parties] embarked on a business mission, though there is a concern about the presence of litigation, the common interest privilege will not be applicable."[9] In fact, in one recent case, a New York court rejected a common interest agreement between a company and the inventors of the patent that the company acquired.[10]

But what about the common interest agreement between Small But Clever and Wealth LLC? Will this agreement also be rejected by New York courts?

At first glance, it might appear the answer is yes. New York has adopted the strict language that parties to a common interest agreement must share interests which are "identical, not similar" and "legal, not commercial."[11]

In actual practice, however, New York courts have treated common interest agreements more leniently than many other courts which cite this very same strict language. For example, a New York court concluded that a parent company and its subsidiaries shared a sufficiently "identical legal interest" for a common interest agreement to be valid, even though elsewhere some courts have concluded that a parent and its subsidiaries lack an "identical legal interest."[12]

Another important distinction is that Small But Clever formed its common interest agreement in response to pending litigation, while Enormous Corporation did not. New York courts have often limited common interest agreements to pending or reasonably anticipated litigation.[13] Thus, for this reason too, Small But Clever's common interest agreement is likely to be upheld, while Enormous Corporation's is rejected.

Conclusion: The Right State to Do It Right

In the case of Small But Clever, New York might be the ideal state. New York's relative strict treatment of common interest agreements would likely invalidate the Enormous Corporation's agreement on the grounds that it was a business agreement unrelated to actual litigation. On the other hand, New York is more lenient than many other "strict" states, and would likely accept the common interest agreement between Small But Clever and Wealthy LLC as valid.

Endnotes

1. *See Chahoon v. Commonwealth*, 62 Va. (21 Gratt) 822, 839 (1871).
2. *Duplan Corp. v. Deering Milliken, Inc.*, *Neuberger Berman Real Estate Income Fund, Inc. v. Lola Brown Trust No. 1B*, 397 F. Supp. 1146 (D.S.C. 1974).
3. Civ. No. AMD-04-3056, 230 F.R.D. 398, 416 (D. Md. 2005).
4. *Hewlett-Packard v. Bausch & Lomb*, 115 F.R.D. 308, 310 (N.D. Cal. 1987).
5. *See Britesmile, Inc. v. Discus Dental Inc.*, C 02-322- JSW (JL), 2004 U.S. Dist. LEXIS 20023, at *9 (N.D. Cal. Aug. 10, 2004).
6. *Oxy Resources California LLC v. Superior Court*, *Berger v. Seyfarth Shaw LLP*, 115 Cal. App. 4th 874, 881 (2004).
7. No. C 07-05279 JSW (MEJ), 2008 U.S. Dist. LEXIS 88811, at *7 (N.D. Cal. Oct. 21, 2008).
8. *Aetna Cas. & Sur. Co. v. Certain Underwriters at Lloyd's London*, No. 118676/95, No. 018, 176 Misc. 2d 605, 611 (N.Y. Sup. Ct. 1998), *aff'd*, 263 A.D.2d 367, 692 NYS 2d 384 (1999).
9. *Lugosch v. Congel*, 219 F.R.D. 220, 238 (N.D.N.Y. 2003); *see also In re F.T.C.*, 2001 U.S. Dist. LEXIS 5059, 2001 WL 396522, at *13 (S.D.N.Y. April 19, 2001).
10. *See In re Rivastigmine Patent Litig.*, 2005 U.S. Dist. LEXIS 29674 (S.D.N.Y. Nov. 22, 2005).
11. *See, e.g.*, *Bank of America v. Terra Nova Ins. Co. Ltd.*, 211 F. Supp. 2d 493, 496 (S.D.N.Y. 2002); *SR Int'l Bus. Ins. Co. Ltd. v. World Trade Ctr. Props. LLC*, 2002 U.S. Dist. LEXIS 10919, 2002 WL 1334821, at *3 (S.D.N.Y. June 19, 2002); *In re F.T.C.*, 2001 U.S. Dist. LEXIS 5059, 2001 WL 396522, at *3 (S.D.N.Y. April 19, 2001).
12. *Compare Major League Properties v. Salvino, Inc.*, 2003 U.S. Dist. LEXIS 14390 (S.D.N.Y. Aug. 19, 2003) *with United States v. Under Seal #4 (In re Grand Jury Subpoena #06-1)*, 274 Fed. Appx. 306, 311 (4th Cir. 2008).
13. *See, e.g.*, *Allied Irish Banks v. Bank of America, N.A.*, 252 F.R.D. 163 (S.D.N.Y. 2008); *Bank of America v. Terra Nova Ins. Co. Ltd.*, 211 F. Supp. 2d 493, 496-497 (S.D.N.Y. 2002); *Aetna Cas. & Sur. Co. v. Certain Underwriters at Lloyd's London*, No. 118676/95, No. 018, 176 Misc. 2d 605, 612 (N.Y. Sup. Ct. 1998), *aff'd*, 263 A.D.2d 367, 692 NYS 2d 384 (1999).

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Supreme Court Rejects Expansive Approaches to Exercising Personal Jurisdiction Over Out-of-State Companies Based on "Stream of Commerce" Theory

By Robert A. Schwinger and Jonathan C. Cross

On June 27, 2011, in a pair of decisions issued on the final day of its term, the United States Supreme Court rejected a broad application of the "stream of commerce" theory of personal jurisdiction, under which a manufacturer of goods would be subject to personal jurisdiction in any state where its goods are used or purchased by a consumer or other end-user. *J. McIntyre Machinery, Ltd. v. Nicastro,* No. 09-1343; *Goodyear Dunlop Tires Operations, S.A. v. Brown,* No. 10-76. These decisions clarify and reaffirm that out-of-state and non-U.S. companies (including out-of-state and non-U.S. subsidiaries of U.S. companies) are unlikely to be subject to a state's personal jurisdiction in such circumstances without having something more than just sporadic or limited contacts with that state.

McIntyre Machinery overturned a decision of the Supreme Court of New Jersey finding "specific jurisdiction" over a British manufacturer of industrial equipment that allegedly caused a workplace injury in New Jersey. *Goodyear* reversed a decision of the North Carolina Court of Appeals finding "general jurisdiction" in North Carolina over a U.S. corporation's foreign subsidiaries whose products allegedly caused an automobile accident outside Paris, France. In both cases, the U.S. Supreme Court confronted the significance of placing goods into the "stream of commerce," from which they ultimately reached a destination where an injury occurred.

McIntyre Machinery

McIntyre Machinery involved product liability claims against the English manufacturer of a metal shearing machine, brought by a plaintiff who had injured his hand while using one of the defendant manufacturer's machines. The manufacturer had sold its machines to an independent U.S. distributor, and up to four of those machines ultimately ended up in New Jersey. While representatives of that manufacturer had attended a number of conventions and trade shows in the United States, none of them were in New Jersey.

The New Jersey Supreme Court held that because the plaintiff's injury occurred in New Jersey and the manufacturer knew or should have known "that its products are distributed through a nationwide distribution system that might lead to those products being sold in any of the fifty states," but failed to take reasonable steps to prevent its products from being sold in New Jersey, personal jurisdiction over the English manufacturer in New Jersey was proper. The New Jersey Supreme Court predicated its holding on a "stream-of-commerce theory of jurisdiction," under which "a foreign manufacturer that places a defective product in the stream of commerce through a distribution scheme that targets a national market, which includes New Jersey," is subject to New Jersey jurisdiction if the product causes injury in New Jersey.

The Supreme Court reversed by a 6-3 vote, holding that personal jurisdiction was improper in these circumstances. However, there was no single majority opinion. Four Justices joined in a plurality opinion, while two others delivered a separate opinion concurring in the result on a narrower basis than that expressed by the four-justice plurality. As the opinion necessary to the Court's result and resting on the most limited grounds, this latter opinion, written by Justice Breyer, is likely to be treated as the controlling rationale of the case by lower courts.

The plurality opinion, written by Justice Kennedy, noted that a set of divided opinions in an earlier Supreme Court case, *Asahi Metal Industry Co. v. Superior Court,* 480 U.S. 102 (1987), had left unclear whether personal jurisdiction can be predicated on a "stream-of-commerce" theory where there is no showing that a defendant has purposefully availed itself of the benefits of the laws of the state in question, *i.e.*, "engag[ing] in activities that reveal an intent to invoke or benefit from the protection of its laws." Determined to now answer this question, the plurality opinion responded in the negative, concluding that a defendant's transmission of goods into the stream of commerce "permits the exercise of jurisdiction only where the defendant can be said to have targeted the forum; as a general rule, it is not enough that the defendant might have predicted that its goods will reach the forum State."

Thus, because the English manufacturer had no offices in New Jersey, owned no property there, sent no employees there, did not advertise there, and had no contacts with New Jersey other than that the machine in question had ended up there, the four Justices in the plurality found that there was no showing that the company "purposefully availed itself of the New Jersey market,"

and thus no basis for New Jersey to exercise personal jurisdiction over that English manufacturer.

Responding directly to some of the theories that had been discussed but ultimately left unresolved in the 1987 *Asahi* case, the plurality Justices rejected the concept that personal jurisdiction questions should be resolved primarily by reference to "considerations of fairness and foreseeability." Rather, they said, the touchstone of personal jurisdiction analysis should be what they termed "the central concept of sovereign authority," under which it is a defendant's purposeful submission to a forum state's jurisdiction that forms the basis for the forum state's "lawful power" within constitutional due process requirements to render judgment against the defendant.

Justice Breyer's opinion, by contrast, took a more cautious approach. His opinion took the view that straightforward application of earlier Supreme Court precedents was sufficient to resolve the personal jurisdiction question before the Court, without having to issue a broad rule that tackled the issues left unresolved in *Asahi*. Justice Breyer noted that both of the plurality opinions in *Asahi* required more than isolated or occasional sales of products in the forum state. Even under the expansive plurality opinion in *Asahi* written by Justice Brennan, to find personal jurisdiction still required that the sales at least be a part of a "regular flow" or "regular course" of sales in the forum state. And under the narrower plurality opinion in *Asahi* written by Justice O'Connor, to find personal jurisdiction required "something more" than simply placing a product into the "stream of commerce," such as "special state related design, advertising, advice, [or] marketing."

Justice Breyer accordingly rejected the New Jersey Supreme Court's "absolute approach" resting on the distribution of products through a "system that *might* lead to those products being sold" in New Jersey, noting that the Supreme Court "has rejected the notion that the defendant's amenability to suit travels with the chattel," *i.e.*, travels with the goods sold by the defendant. He further noted that the defendant's status as a non-U.S.-based manufacturer raised concerns about "the basic fairness of [the New Jersey Supreme Court's] absolute rule."

Where Justice Breyer took issue with the plurality was in regard to what he characterized as the plurality's "strict rules that would limit jurisdiction where a defendant does not intend to submit to the power of a sovereign," taking the view that *McIntyre Machinery* was an unsuitable "vehicle for making broad pronouncements that refashion basic jurisdictional rules." In particular, he expressed concern about the many factual permutations possible in a world of electronic and Internet commerce, noting that the jurisdictional issues that could arise in such settings would involve "serious commercial consequences [that] are totally absent in this case." Justice Breyer thus suggested that the Court leave the issues implicated by the plurality's more categorical approach to be addressed in a more appropriate case arising at a future time.

Goodyear

In contrast to the divided *McIntyre Machinery* decision, the Court was unanimous in rejecting the state court's exercise of personal jurisdiction in *Goodyear*, a case presenting issues significantly more straightforward than those at issue in *McIntyre Machinery*. *Goodyear* clarified that even where a defendant's sales of goods that reach the forum state might be sufficient to provide "specific" personal jurisdiction, *i.e.*, personal jurisdiction over a claim arising from an injury in that state related to those very goods, such a sale of goods, without more, was still insufficient to subject that defendant to the "general" jurisdiction of the state's courts, *e.g.*, jurisdiction with regard to all disputes, whether or not related to the defendant's activities in, or affecting, the forum state.

Goodyear involved claims arising from a 2004 bus accident outside of Paris, in which two 13-year-old soccer players from North Carolina had died. The athletes' parents sued various parties, including several foreign subsidiaries of Goodyear USA, asserting that tires made, designed and distributed by the subsidiaries were defective and had caused the crash. The tires in questions were made in Turkey, and were sold and used in Europe.

While the U.S. parent, Goodyear USA, did not contest personal jurisdiction in North Carolina, its foreign subsidiaries did. The North Carolina Supreme Court held that the foreign subsidiaries were subject to North Carolina jurisdiction because some of the tires made abroad by those foreign subsidiaries—though not the tires actually involved in this particular crash—"had reached North Carolina through the 'stream of commerce.'"

The U.S. Supreme Court reversed. What the North Carolina Court of Appeals had done, it said, was to improperly conflate the test for "general" jurisdiction with the test for "specific" jurisdiction. The Supreme Court reaffirmed that the "paradigm" bases for exercising "general" jurisdiction over a corporation are when the corporation is domiciled or incorporated in the forum state or has its principal place of business there. Out-of-state defendants can also be subject to "general" jurisdiction in a state on a so-called "presence" or "doing business" rationale if their contacts with that state are "continuous and systematic" in nature, a demanding requirement. But mere marketing or sales of products that reach the forum

state, the Court held, will generally be held insufficient to support an exercise of "general" jurisdiction over that defendant, *e.g.*, as to claims that do not themselves arise from the marketing or sale of the defendant's products in the forum state.

The consequence of the "sprawling view of general jurisdiction" that had been embraced by the court below, said the Supreme Court, would be that "any substantial manufacturer or seller of goods would be amenable to suit, on any claim for relief, wherever its products are distributed." The Supreme Court held that such a result was incompatible with the Court's long-standing due process jurisprudence setting the limits on when states can exercise personal jurisdiction over out-of-state defendants.

Implications of the Court's Decisions

Taken together, *McIntyre Machinery* and *Goodyear* represent a one-two punch of rejection for the efforts by some state courts to advance expansive theories of personal jurisdiction based on the "stream of commerce" language used in Justice Brennan's plurality opinion in *Asahi* 24 years ago. These latest personal jurisdiction decisions by the Supreme Court reaffirm that mere occasional and sporadic sales of products that somehow reach a particular state will not ordinarily be sufficient to support personal jurisdiction in that state over the manufacturer of the products. Moreover, these decisions make clear that where the plaintiff's claim is not directly related to a defendant's sales of products in the forum state, so as to provide a basis for exercising "specific" jurisdiction over the defendant, it will ordinarily be very difficult, if not impossible, for the plaintiff to establish "general" jurisdiction over the defendant in the forum state if based solely upon such sales.

While the Court thus rejected efforts by some courts to expand the boundaries of personal jurisdiction, the Court's opinions should not be taken as a sea change in the law of personal jurisdiction. Moreover, even with the clarifications these opinions provide, a number of questions still remain open.

For example, the Court's opinions do not offer clear guidance regarding what level of sales that reach a particular state should be deemed "occasional or sporadic," or even on what the relevant metric is for measuring such level (*e.g.*, should it be based on frequency of sales, unit volumes of sales, dollar volumes of sales, etc.?), and whether that metric should be evaluated differently depending on the method of delivery or distribution. In addition, because *McIntyre Machinery* involved indirect sales through an independent distributor, that decision therefore may not provide reliable guidance as to situations where a defendant has made at least some sales directly in or into the state where the litigation was filed. Moreover, under the Court's analysis, if the defendant has deliberately targeted its marketing or sales efforts towards a particular state, it is uncertain whether a limited volume of sales may support personal jurisdiction there. Finally, as Justice Breyer's opinion in *McIntyre Machinery* suggests, the application of these principles is less clear and certainly not well settled in the context of Internet and electronic sales, such as when a defendant manufacturer's goods are made available in all 50 states equally through websites like Amazon.com. The Supreme Court and the lower courts will likely continue to refine the application of personal jurisdiction rules to lawsuits arising from such transactions.

In light of *McIntyre Machinery* and *Goodyear*, international companies may be able to reduce their risk of being subjected to the jurisdiction of unfamiliar U.S. state court systems by reviewing and possibly modifying their U.S. marketing and distribution practices. At least outside the e-commerce realm, to the extent that foreign-manufactured products are marketed through independent, nationwide or regional distributors, and the foreign manufacturer avoids advertising or marketing activities that target specific U.S. states, the manufacturer's risk of becoming subject to jurisdiction in an unexpected locale may be reduced as a result of these two decisions.

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Ethical and Legal Considerations When Outsourcing Legal Services to Foreign Countries

By Gregory P. Gulia and R. Terry Parker

In the last few years, more and more companies have turned to outsourcing legal work to foreign countries like India as a means of cutting legal costs in this difficult economy. Microsoft and Hewlett-Packard have reportedly saved millions of dollars in legal fees by outsourcing legal work to India in recent years.[1] Forrester Research in Boston has estimated that about 50,000 U.S. legal jobs will be moved overseas by 2015.[2] However, while companies may save money by outsourcing legal work to foreign firms, these savings are not without significant legal risks. This article provides a brief overview of a few of the issues which should concern in-house lawyers when they consider outsourcing legal work to foreign countries.

"[W]hile companies may save money by outsourcing legal work to foreign firms, these savings are not without significant legal risks."

A. Outsourcing and Legal Ethics

In New York, as in most U.S. states, the ethical rules governing the practice of law prohibit the practice of law by an unlicensed lawyer or non-lawyer.[3] The rationale behind the prohibition on practicing law by unlicensed individuals is "the need of the public for integrity and competence of those who undertake to render legal services."[4] This need is taken very seriously, as evinced by New York's Judiciary Law § 478 which provides that the unauthorized practice of law is a misdemeanor, and in some instances, a felony.[5]

The case *Spivak v. Sachs* provides a good starting point for any discussion of the unlawful practice of law in New York. In that case, the Court of Appeals in New York held that a California attorney who came to New York, where he had not been admitted to practice, in order to assist in matrimonial litigation, had practiced law in violation of the statute and therefore could not recover legal fees for services rendered.[6] In concluding that the California lawyer had engaged in the unauthorized practice of law in New York, the court stated, "[n]ot only did he give her legal counsel as to those matters but essayed to give his opinion as to New York's being the proper jurisdiction for litigation concerning the marital res and as to related alimony and custody issues, and even went so far as to urge a change in New York counsel."[7] The court determined that the lawyer's actions violated the unauthorized practice of law provision despite the fact that the client had sought his assistance and specifically urged him to come to New York and that the lawyer had informed her that he was not licensed in New York and could do no more that consult with her, advise her, and recommend New York counsel.[8] The court stressed the importance of "[protecting] citizens against the dangers of legal representation and advice given by persons not trained, examined and licensed for such work, whether they be laymen or lawyers from other jurisdictions."[9]

Accordingly, while in-house counsel and outside counsel who outsource legal services abroad may not be engaged in the unlawful practice of law themselves, they do need to be concerned about the extent to which they are aiding in the unlawful practice of law. Rule 5.5(b) of the New York Rules of Professional Conduct provides that lawyers shall not "aid a non-lawyer in the unauthorized practice of law."[10]

Does in-house counsel aid in the unauthorized practice of law when he or she outsources legal work to lawyers or non-lawyers in foreign countries who are not qualified to practice law in New York? Not necessarily. The New York City Bar Committee on Professional and Judicial Ethics appears to have embraced the trend of outsourcing in its Formal Op. 2006-3 (2006), as have several other bar associations.[11] Acknowledging that attorneys in New York have long since delegated tasks to clerks, secretaries, and other lay persons, the Committee concluded that a New York lawyer "may ethically outsource legal support services overseas to a non-lawyer, if the New York lawyer (a) rigorously supervises the non-lawyer, so as to avoid aiding the non-lawyer in the unauthorized practice of law and to ensure that the non-lawyer's work contributes to the lawyer's competent representation of the client; (b) preserves the client's confidences and secrets when outsourcing; (c) avoids conflicts of interest when outsourcing; (d) bills for outsourcing appropriately; and (e) when necessary, obtains advance client consent to outsourcing."[12] The Committee distances itself from the more protectionist attitude of *Spivak v. Sachs* by treating the foreign lawyers and law professionals who perform

outsourced work as non-lawyers. By limiting the scope of its opinion to the ethical considerations of outsourcing "support services" the Committee suggests that the provision of legal opinions or advice should remain with the lawyer licensed in New York.

However, Formal Op. 2006-3 leaves a few issues open for those considering outsourcing even "support services." First, what level of "rigorous" supervision is required? The Committee offers the following advice:

> Although each situation is different, among the salutary steps in discharging the duty to supervise that the New York lawyer should consider are to (a) obtain background information about any intermediary employing or engaging the non-lawyer, and obtain the professional résumé of the non-lawyer; (b) conduct reference checks; (c) interview the non-lawyer in advance, for example, by telephone or by voice-over-internet protocol or by web cast, to ascertain the particular non-lawyer's suitability for the particular assignment; and (d) communicate with the non-lawyer during the assignment to ensure that the non-lawyer understands the assignment and that the non-lawyer is discharging the assignment according to the lawyer's expectations.

As commentators have noted, merely communicating with foreign lawyers is not likely to provide clients sufficient assurance that proper supervision is in place.[13]

Another unresolved issue with the Committee's opinion is how the outsourcing attorney in New York can ensure that the foreign lawyer or law service provider maintains the confidences of the client. The Committee recommends "reminding both the intermediary and the non-lawyer, preferably in writing, of the need for them to safeguard the confidences and secrets of their other current and former clients."[14] How much assurance such a written "reminder" provides a client should be weighed against the costs and reliability of obtaining a remedy for a breach of confidence, either in New York or in the foreign country where the legal services are performed. This rather lax measure stands in stark contrast to the protective rhetoric of *Spivak v. Sachs* and its progeny.

Moreover, what does the Committee mean by billing appropriately? The Committee advises that the lawyer "should charge the client no more than the direct cost associated with outsourcing, plus a reasonable allocation of overhead expenses directly associated with providing that service." Savings from outsourcing should therefore accrue to the client.

In addition, the Committee's apparent green light for outsourcing "support services" in the legal profession should be viewed in the context of the restrictions placed on non-U.S. lawyers practicing in the United States. For example, various U.S. states strictly regulate foreign legal consultants. Twenty-six jurisdictions in the United States have adopted foreign legal consultant licensing regimes whereby the legal consultant status enables a foreign lawyer to give advice on the law of his or her country or international law. However, a foreign legal consultant cannot give professional legal advice on United States federal law or the law of the state where he or she is admitted as a foreign legal consultant except on the basis of prior advice from a licensed attorney from the state in question.[15]

B. Outsourcing of Legal Services and the Attorney-Client Privilege and Work Product Protection

The most significant risk posed by outsourcing legal services to foreign countries is the potential loss of the attorney-client privilege. As set forth in District Judge Charles E. Wyzanski's oft-quoted formulation, the attorney-client privilege is limited to where:

> (1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.[16]

While many courts have noted that the attorney-client privilege encourages "full and frank communication between attorneys and their clients" and that it shields "from discovery advice given by the attorney as well as communications from the client to the attorney, made in pursuit of or in facilitation of the provision of legal services," it should also be noted that the attorney-client privilege "stands in derogation of the public's right to

every man's evidence and ought to be strictly confined within the narrowest possible limits consistent with the logic of the principle."[17] The attorney-client privilege is by no means guaranteed, and even less so when communications are with counsel in foreign countries.

The second prong of Judge Wyzanski's test presents the most obvious hurdle to those hoping to outsource legal work: the privilege hinges upon a showing that the person to whom the communication was made "is a member of the bar of a court." For example, in *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*,[18] the plaintiff Louis Vuitton Malletier ("LV") asserted the attorney-client privilege for documents representing communications between its in-house counsel who was based in France, its counsel who practiced in the United States and other LV personnel concerning applications for registration of trademarks by the United States Patent and Trademark Office. LV was unable to assert the privilege because the attorney-client privilege does not apply to communications with legal practitioners that are not admitted to practice at the bar of a state or federal court or foreign court.[19]

It should be noted that cases involving questions of attorney-client privilege often involve a choice of law analysis, with the application of the privilege determined by the rules of the jurisdiction which has the most significant contacts and relationship.[20] Typically, if the communications "touch base" with the United States, the rules regarding privilege in this country will apply while communications related to matters solely involving a foreign country will be governed by the applicable foreign statute.[21] This can be an important question because some countries may not recognize the attorney-client privilege or may not grant the privilege the same scope as is found in the United States. For example, the court in *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.* analyzed French law to determine whether the communications in question were truly privileged under French law and held that the defendants in that case failed to show that the state of the law in France meets the standards for receiving what the court called "extraordinary protection."[22]

As for work product protection, the rules of the forum court apply and it is therefore not subject to a choice of law analysis.[23] The work product doctrine applies to "(1) a document or tangible thing, (2) that was prepared in anticipation of litigation, and (3) was prepared by or for a party or by or for his representative."[24] However, the party seeking protection under the work product doctrine must show more than the "mere possibility of litigation" but "must demonstrate that, in light of the nature of the document and the factual situation in the particular case, the document can fairly be said to have been prepared or obtained because of the prospect of litigation."[25] Accordingly, work outsourced to foreign counsel or foreign law professionals which was not prepared because of the prospect of litigation is not likely to be protected by the work product doctrine.

"[I]n-house counsel should also consider issues of attorney-client privilege and work product protection prior to moving legal work offshore."

C. Conclusion

The growing trend of outsourcing legal work to foreign countries appears well entrenched. While outsourcing legal work to foreign countries raises a number of ethical issues, most notable liability for aiding in the unlawful practice of law, outsourcing legal work may not be in violation of the ethical rules provided that the work is limited to support services and provided that issues of supervision, confidentiality and competence are addressed. However, in-house counsel should also consider issues of attorney-client privilege and work product protection prior to moving legal work offshore. The loss of these protections can be extremely crippling to a case that reaches the trial stage of litigation.

Endnotes

1. See http://www.dailybusinessreview.com/PubArticleDBR.jsp?id=1202489654095&slreturn=1&hbxlogin=1 (last accessed July 20, 2011).
2. See http://www.nytimes.com/2007/08/21/business/worldbusiness/21iht-law.4.7199252.html (last accessed July 20, 2011).
3. *See N.Y. State Bar Ass'n., The Lawyer's Code of Prof'l. Responsibility* (2002), DR 3-101.
4. *Id*.
5. *See, e.g., N.Y. Jud. Ct. Acts Law* § 478 (stating that a violation of Judiciary Law § 478 is a misdemeanor and the provisions of § 478 may be enforced in civil actions by the Attorney General or a bar association formed in accordance with the law of the State of New York).
6. 16 N.Y.2d 163 (1965).
7. *Id*. at 167.
8. *Id*. at 166-68.
9. *Id*. at 168.
10. Rule 5.5.
11. See ABA Comm. on Ethics & Prof'l Responsibility, Formal Op. 08-451 (2008) (available at http://meetings.abanet.org/webupload/commupload/IC100123/relatedresources/opinion8-451.pdf); Ohio Supreme Court Bd. of Comm'rs on Grievances & Discipline, Op. 2009-6 (2009) (available at http://www.supremecourt.ohio.gov/Boards/BOC/Advisory_Opinions/index/o.asp; Colo. Bar Ass'n, Formal Op. 121 (2009) (available at http://www.cobar.org/index.

cfm/ID/386/subID/25320/CETH/; Prof'l. Ethics of the Fla. Bar, Formal Op. 07-2 (2008) (available at http://www.floridabar.org/tfb/tfbetopin.nsf/b2b76d49e9fd64a5852570050067a7af/792dd018996bf2498525749400624f7a!OpenDocument); N.C. St. Bar, 2007 Formal Ethics Op. 12 (2008) (available at http://www.osqs.com/images/Resourcespages/barethics/NC%202007%20Formal%20Ethics%20Opinion%2012.pdf); San Diego Cnty. Bar Ass'n, Ethics Op. 2007-1 (2007) (available at http://cobralegalsolutions.com/pdf/San%20Diego%20County%20Bar%20Association.pdf; L.A. Cnty. Bar Ass'n Comm. on Prof'l Ethics, Formal Op. 518 (2006), available at http://www.lacba.org/showpage.cfm?pageid=427); ABA Comm'n on Ethics 20/20 Discussion Draft, 10-15 (2010) (available at http://www.americanbar.org/content/dam/aba/migrated/ethics2020/pdfs/discussion_draft.authcheckdam.pdf.

12. *Id.*
13. Mark L. Tuft, "Supervising Offshore Outsourcing of Legal Services in a Global Environment: Re-Examining Current Ethical Standards," 43 Akron L. Rev. 825 (2010); Keith Woffinden, "Surfing the Next Wave of Outsourcing: The Ethics of Sending Domestic Legal Work to Foreign Countries Under New York City Opinion 2006-3," 2007 B.Y.U.L. Rev. 483, 511 (2007). *See also* Cassandra Burke Robertson, "A Collaborative Model of Offshore Legal Outsourcing," 43 Ariz. St. L.J. 125 (2010) (analyzing legal outsourcing through the lens of organizational and socioeconomic theory and by giving attention to situational influences affecting the outsourcing process.
14. The Ass'n of the Bar of the City of New York Comm. on Prof'l I and Judicial Ethics, Formal Op. 2006-3 (2006).
15. *See, e.g., N.Y. Ct. App. R. Part* 521; *see also Globalaw Limited v. Carmon & Carmon Law Office*, 452 F. Supp. 2d 1, 9 (D. D.C. 2006) (stating that a foreign lawyer with legal consultant status in New York could not provide professional legal advice on U.S. copyright law).
16. *Colton v. United States*, 306 F.2d 633, 636-637 (2d Cir. N.Y. 1962) (*quoting United States v. United Shoe Mach. Corp.*, 89 F.Supp. 357, 358-59 (D.Mass.1950).
17. *Id.*
18. 2006 U.S. Dist. LEXIS 87096, 53-54 (S.D.N.Y. Nov. 29, 2006).
19. *Id.*
20. *See, e.g., Golden Trade v. Lee Apparel Co.*, 143 F.R.D. 514, 520 (S.D.N.Y. 1992).
21. *Id*.
22. 1998 U.S. Dist. LEXIS 4213 (S.D.N.Y. Mar. 31, 1998).
23. *See Astra Aktiebolag v. Andrx Pharms., Inc.*, 208 F.R.D. 92, 103-05 (S.D.N.Y. 2002).
24. *Gucci Am., Inc. v. Guess?, Inc.*, 271 F.R.D. 58, 73-74 (S.D.N.Y. 2010) (internal citations omitted).
25. *Id.*

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Securities Class Actions in Canada—Increased Exposure for U.S. Companies, Directors and Officers as a Result of Canada's New Secondary Market Civil Liability Regime

By Robb Heintzman and Matthew Fleming

Introduction

Recent legislative amendments to Canadian securities legislation have resulted in increased exposure in Canada for U.S.-based public companies and their officers, directors and professional advisors. This exposure is both substantive and procedural. In the former instance, U.S. public companies may now be found liable in Canadian class action proceedings for misrepresentations related to trading in the secondary market. In the latter instance, what has been referred to as the "gatekeeper" feature of the legislation could be used by U.S. plaintiffs to gather evidence in Canadian proceedings against U.S. defendants, which could then be used in U.S. class actions against the same defendants. This article reviews the relevant provisions of the statutory regime, as well as recent Canadian cases interpreting these provisions, and highlights the associated risks for public companies and their officers, directors and professional advisors.

Background—Secondary Market Liability in Canada

For some time, U.S. public companies have faced the prospect of shareholder class action litigation in the U.S. based on a statutory right of action for misrepresentations in both the primary and secondary markets. In contrast, while Canadian investors have had a statutory right of action in connection with misrepresentations in a prospectus (i.e., the primary market), publicly traded Canadian and U.S. companies were largely immune in Canada to securities class actions arising from misrepresentations in the secondary market. In the absence of a statutory remedy, Canadian investors were left to pursue claims based on a common law cause of action in negligent misrepresentation. However, class actions based on such claims traditionally met with limited success in view of the fact that the U.S. "fraud on the market" theory was expressly rejected in Canada[1] and the question of an investor's reliance on the misrepresentation was considered, for the most part, an individual issue incompatible with the adjudication of common issues in Canadian class proceedings.[2]

The landscape changed in recent years with the adoption of a new secondary market liability regime in the Ontario *Securities Act* (the "Act"),[3] and subsequently in the securities legislation of other provinces and territories of Canada. In essence, these provisions entitle security holders of a "responsible issuer" to bring an action for damages where the issuer releases a public document or makes a public statement which contains a misrepresentation, or fails to make timely disclosure of a material change.[4] The potential targets of such proceedings are not limited to issuers and include the company's directors, officers and professional advisors, such as auditors, lawyers and engineers.

The key element of the new regime is section 138.3 of the Act, which provides that security holders have a right of action for damages irrespective of whether they relied on the misrepresentation or on the company's compliance with its public disclosure obligations in acquiring or disposing of an issuer's securities. In the result, investor reliance on the misrepresentation is now deemed to have occurred and the hurdle of demonstrating individual reliance on the misrepresentation has been overcome by the new statutory regime.

Potential Liability for U.S. Defendants

Of significance for U.S. public companies and their officers, directors and professional advisors is the definition of "responsible issuer" in section 138.1 of the Act, which includes a reporting issuer or "any other issuer with a real and substantial connection to Ontario, any securities of which are publicly traded." Thus, liability under the statutory regime is not limited to Canadian issuers but potentially extends to U.S. public companies with securities which trade on a public exchange.

The ambit of this provision has yet to be tested in court. However, the reference to a "real and substantial connection" appears intended to echo the common law test established by the Supreme Court of Canada for determining jurisdictional questions of private international law. The real and substantial connection test has been described by the Supreme Court as flexible and based on principles of "order and fairness."[5] Notably, however, the personal subjection test based solely on the defendant's connection to the forum, which has been adopted in U.S. jurisdictions, has been rejected in Canada in favour of a more flexible approach.

To the knowledge of the authors, there is currently only one case in Canada in which a U.S.-based defendant, American International Group Inc. ("AIG"), has been made a defendant in putative class proceedings. In that case, the defendants brought a motion challenging the jurisdiction of the Canadian court but the motion was adjourned pending the decision of the Supreme Court of Canada in another case, *Van Breda v. Village Resorts Limited*.[6] In that case, the Ontario Court of Appeal reformulated its previous articulation[7] of the factors to be considered as part of the real and substantial connection test. The Supreme Court's decision in *Van Breda* is expected to provide guidance regarding the jurisdictional questions in the proceeding against AIG.

Significantly, the Ontario Court of Appeal's decision in *Van Breda* may have made it easier for plaintiffs to establish jurisdiction over a foreign defendant. The Court of Appeal held that jurisdiction will be presumed to exist where the claims fall within one of the categories under which service outside Ontario is permitted under the Ontario *Rules of Civil Procedure*, with certain limited exceptions.[8] The core element of the test remains the connection between the plaintiff's claim and the forum in which it is made. While the Court of Appeal also determined that where a defendant confines its activities to its home jurisdiction, it will not ordinarily be subject to the jurisdiction of the Ontario courts, the Court further held that where a defendant could reasonably foresee that its conduct would cause harm in the forum in question, jurisdiction may be assumed.[9]

The manner in which the "real and substantial connection" test is interpreted by the Supreme Court of Canada in the *Van Breda* case and is applied in the claim against AIG obviously has potentially significant repercussions for U.S. companies. This is particularly the case where courts in Canada, in certifying class actions, have been prepared to certify a global plaintiff class. This is precisely what occurred in the first case in Canada under the new secondary market liability regime which was certified as a class proceeding. In *Silver v. IMAX Corp.*,[10] the court certified a global class of investors notwithstanding the fact that, among other things, a multiplicity of different laws might apply to the claims of class members from different jurisdictions and further, that a parallel class proceeding had been initiated against the defendant in Illinois.[11]

Notwithstanding the potential size of such a global class, U.S. companies, and especially their directors, officers and professional advisors, can take some comfort from a unique provision of the new legislation. As outlined further below, in adopting statutory liability arising from trading in the secondary market, the drafters of the legislation were influenced by the U.S. experience with "strike suits"—class actions of questionable merit launched by plaintiffs' counsel seeking a favourable settlement from defendants wishing to avoid costly litigation and limit risk.

In the result, section 138.7 of the Act imposes "caps" on the amount of damages that can be awarded to successful plaintiffs. The liability of directors and officers is limited to the greater of $25,000 and 50% of the individual's aggregate remuneration from the responsible issuer and its affiliates. The liability for "experts," such as auditors and lawyers, is limited to the greater of $1 million and the revenue that the expert and its affiliates have earned from the responsible issuer and its affiliates during the 12 months preceding the misrepresentation. With respect to the responsible issuer, the liability limit is the greater of $1 million and 5% of its market capitalization. While these amounts can be significant, depending on the circumstances, they may not be as crippling as the awards might otherwise be and, at a minimum, provide a framework for any settlement negotiations with the plaintiffs.

Ultimately, the extent of the exposure faced by U.S. defendants in Canadian secondary market class actions remains unclear, although the development of the jurisprudence in Canada over the next few years will provide more guidance. What is clear, however, is that the legislation is not confined to Canadian issuers and has implications for U.S. companies, including procedural implications which we elaborate upon further below.

The Gatekeeper Provision

As noted above, while the adoption in Canada of secondary market liability has increased the exposure of U.S. public companies to investor class actions in Canada, the drafters of the amendments to the Act adopted certain measures to deter strike suits, including a "gatekeeper" provision in section 138.8 of the Act. This provision, the key portions of which are reproduced below, requires putative plaintiffs to obtain leave from the Court to proceed with their proposed action:

> 138.8(1) No action may be commenced under section 138.3 without leave of the court granted upon motion with notice to each defendant. The court shall grant leave only where it is satisfied that,
>
> (a) the action is being brought in good faith; and
>
> (b) there is a reasonable possibility that the action will be resolved at trial in favour of the plaintiff.

> (2) Upon an application under this section, the plaintiff and each defendant shall serve and file one or more affidavits setting forth the material facts upon which each intends to rely.
>
> (3) The maker of such an affidavit may be examined on it in accordance with the rules of court.

In the *IMAX* case referred to earlier, the Court determined that the test under section 138.8 established a relatively low threshold for leave.[12] In that case, defendants filed affidavits in response to the plaintiffs' motion under section 138.8 for leave to proceed with their proposed secondary market claim. During the plaintiffs' cross-examination of the defendants' affiants, defence counsel objected to certain questions posed by plaintiffs' counsel and refused to agree to produce certain documents sought by the plaintiffs. In the result, the plaintiffs moved for an order compelling the defendants to answer the questions and produce the documents at issue. The court ultimately determined that the majority of the questions and document requests were proper and should be answered.[13]

This decision is particularly significant for U.S. companies which may face concurrent class proceedings in Canada and the U.S. Plaintiff class action firms in the U.S. have already teamed with Canadian class action counsel in connection with Canadian class action proceedings.[14] Were U.S. defendants to a Canadian proceeding to file affidavits and be subject to cross-examination in Canada at the gatekeeper stage of a secondary market securities class action, U.S. plaintiffs, cooperating with Canadian plaintiffs, might attempt to use the evidence in the U.S. proceeding. For example, U.S. plaintiffs might be better informed and better positioned to respond to any motion to dismiss the U.S. action made by the defendants in the U.S. proceeding, after using the Canadian proceeding to obtain evidence that otherwise might be unavailable to them.

The *Ainslie* Decision

The alternative which is available to U.S. defendants in responding to a motion for leave under section 138.8 is demonstrated by the decision in *Ainslie v. CV Technologies Inc.*[15] In that case, the defendant auditor declined to file an affidavit in response to the plaintiffs' motion for leave, while the defendant issuer and its directors and officers filed expert evidence only. The court was therefore faced with the question of whether the defendants were obligated to respond to the plaintiffs' leave motion by filing affidavit material, thereby exposing themselves to cross-examination and the production of documents prior to the court granting leave. Ultimately, the Court concluded that section 138.8 does not require potential defendants to disclose the basis for their defense and expose their personnel to examination during the gatekeeper process.

In analyzing whether section 138.8 of the Act requires proposed defendants to file affidavits in response to a leave motion, the Court noted that in recommending the adoption of a secondary market civil liability regime, the drafters emphasized that the focus of the proposed amendments was deterrence, rather than investor compensation.[16] The drafters further drew a distinction between compensating an investor who purchased securities under a prospectus and investors who had purchased securities in the secondary market. In the former instance, investors would be compensated with the subscription money whereas in the latter case, the payment of compensation to investors would come at the expense of the issuer's continuing shareholders. In the result, it was determined that a screening mechanism was needed in order to ensure that the time and expense imposed on defendants by unmeritorious litigation would be avoided or brought to an end early in the litigation process.[17]

With this background in mind, the Court rejected the plaintiffs' argument that the use of the word "shall" in subsection 138.8(2) made the filing of an affidavit by a defendant mandatory in response to a motion for leave.[18] The Court further declined to accept the plaintiffs' argument that if defendants were not required to serve affidavits in response to a motion for leave, the plaintiffs would be deprived of the opportunity to obtain evidence which might assist them in obtaining leave. The Court emphasized that under section 138.8 it is the plaintiffs who bear the onus of demonstrating that their proposed secondary market liability action is brought in good faith and has a reasonable prospect of success at trial. The Court concluded that if there are no material facts upon which a defendant intends to rely in responding to a motion for leave, a defendant is not required to file an affidavit.[19]

While a defendant that declines to file evidence in response to the plaintiffs' leave motion will likely find it difficult to defeat the motion for leave,[20] there may be strategic advantages to avoiding the form of early discovery which is otherwise available to the plaintiffs where the defendant files affidavits in response to the motion. This is particularly the case where U.S. companies face parallel class proceedings in the U.S. and, as noted above, the test for obtaining leave does not appear to establish only a low hurdle for plaintiffs.

Conclusion

The adoption of statutory secondary market liability in Canada creates additional exposure for U.S. companies and their officers, directors and professional advisors, not only in Canadian class actions, but also in concurrent U.S. class proceedings. The gatekeeper provision provides a mechanism by which U.S. plaintiffs (working with Canadian plaintiffs) may attempt to obtain evidence for U.S. proceedings, where damages claims are unencumbered by the liability limits which exist under Canadian legislation. As such, U.S. defendants in Canadian secondary market securities class actions should be aware that the implications of such proceedings may extend beyond the Canadian border and have repercussions for their defence of U.S. securities class actions.

Endnotes

1. *Carom v. Bre-X Minerals Ltd*. (1998), 41 O.R. (3d) 780 (Gen. Div.).
2. The extent to which common law claims of negligent misrepresentation may be certified as common issues in securities class actions is the subject of an ongoing debate in the authorities. For a summary of these cases and of the issue, see *McKenna v. Gammon Gold Inc.*, 2010 ONSC 1591 (S.C.J.) at paras. 129-163, leave to appeal granted (but not on this issue) 2010 ONSC 4068 (Div. Ct.).
3. R.S.O. 1990, c. S.5, as amended, Part XXIII.1.
4. While reporting issuers in the U.S. are subject to periodic disclosure obligations, Canadian reporting issuers are obligated to make continuous disclosure of material changes in their business, operations or capital that would reasonably be expected to have a significant effect on the market price or value of any of the securities of the issuer (or decisions by the board of directors or senior management to implement such a change).
5. See, for example, *Morguard Investments Ltd. v. De savoye*, [1990] 3 S.C.R. 1077.
6. 2010 ONCA 84, leave to appeal granted, 2010 CarswellOnt 4917 (S.C.C.).
7. *Muscutt v. Courcelles*, 2002 CarswellOnt 1756 (C.A.).
8. R.R.O. 1990, Reg. 194, Rule 17.02.
9. *Van Breda, supra* note 6 at paras. 84-92.
10. 2009 CarswellOnt 7873 (S.C.J.), leave to appeal dismissed, 2011 CarswellOnt 877 (Div. Ct.).
11. *Id.* at paras. 108-165.
12. *Silver v. IMAX Corp.*, 2009 CarswellOnt 7874 (S.C.J.), leave to appeal dismissed, 2011 CarswellOnt 877 (Div. Ct.).
13. *Silver v. IMAX Corp.*, 2008 CarswellOnt 2867 (S.C.J.), leave to appeal refused, 2008 CarswellOnt 4087 (Div. Ct.).
14. In *Sharma v. Timminco Ltd.* (2009), 99 O.R. (3d) 260 (S.C.J.), the court held that the involvement of a U.S. class plaintiff action firm with one of the two Canadian plaintiff class action firms seeking carriage of the proceeding was a neutral factor in determining which firm was best suited to represent the proposed representative plaintiff.
15. (2008) 93 O.R. (3d) 200 (S.C.J.), leave to appeal granted, 2009 CarswellOnt 934 (Div. Ct.). The appeal was abandoned when the action was settled, *Ainslie v. Afexa Life Sciences*, 2010 CarswellOnt 5672 (S.C.J.).
16. *Id.* at paras. 7-9.
17. *Id.* at paras. 11-13.
18. *Id.* at paras. 14-15.
19. *Id.* at paras. 16-20.
20. In *Dobbie v. Arctic Glacier Income Fund*, 2011 ONSC 25 (S.C.J.), the plaintiffs argued that the defendants' decision not to file evidence in response to the plaintiffs' leave motion was fatal to the defendants' opposition to the motion. The court disagreed, noting that it accepted the decision in *Ainslie v. CV Technologies, supra* and that defendants were not required to file affidavit evidence in response to the leave motion. However, the court granted leave to the plaintiffs to proceed with their secondary market claim.

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Why Can't We All Just Get Along? A Transatlantic Perspective on Cooperation Between Regulators and Cooperation with Regulators

By Howard Fischer, Laurence Lieberman and Paul Glass

This article addresses several recent developments with respect to securities enforcement proceedings in the United Kingdom and the United States, with a focus on the respective prominence of cooperation agreements and negotiated resolutions in both jurisdictions as administered by the Financial Services Authority ("FSA") and Securities and Exchange Commission ("SEC").

The View from the UK

The FSA's recent enforcement activity highlights two areas which should be of key concern to regulated entities. First, the FSA has a statutory power to grant immunity or enter into plea bargains, in a similar fashion to the SEC. Second, there is an ever-increasing amount of co-operation between international regulators, especially the FSA and SEC, which means that regulated entities need to be aware of, and have advice on, the regulatory regimes in all jurisdictions in which they operate, and be aware of how those regulatory regimes interrelate.

The FSA's statutory power to grant immunity or enter into plea bargains

Plea bargaining and immunity arrangements have long been viewed in the English legal system with suspicion, especially when compared to their extensive use in the United States. The FSA gained the power to enter into agreements to reduce sentences, or grant immunity, in exchange for co-operation and assistance in pursuing other offenders under Section 113 of the Coroners and Justice Act 2009 (several other prosecutorial agencies in the UK had been granted this power in 2005, under the Serious Organised Crime and Police Act 2005), after substantial lobbying of the government. 2010 saw the first public use of the powers as Malcolm Calvert, a former banker at Cazenove, was convicted of insider dealing partially on the basis of evidence from a friend who placed share orders on his behalf. There were a number of high-profile raids and arrests by the FSA and City of London police in 2009 and 2010 and if (or when) charges are brought in relation to those investigations, we expect that the FSA will seek to use its powers obtained under SOCPA to the fullest extent possible.

One area where the FSA (unlike the SEC) currently suffers a restriction on evidence gathering is that it cannot obtain wiretaps. While calls to or from work landlines and, from November 2011, work mobiles, at FSA regulated firms must be recorded, and so available for scrutiny, personal mobiles, the more likely medium for insider dealers, are beyond its interrogatory reach for now.

Increased co-operation between the FSA and SEC on information exchange

On 2 February 2011, Margaret Cole, head of enforcement at the FSA, said that "*Our tough, coordinated approach to insider dealing and our commitment to taking on difficult criminal prosecutions has really begun to pay off…we can and will, uncover insider dealing, even across borders…*" A good example of this cross-border approach is the Blue Index Ltd investigation, where the FSA charged 5 individuals with 17 counts of insider dealing in November 2010. Meanwhile, the FSA and SEC cooperated with the U.S. Department of Justice and Federal Bureau of Investigation in an investigation related to Blue Index which saw a former Deloitte Tax LLP partner and his wife charged with insider dealing in the U.S.

In February 2010, the Court of Appeal heard an appeal by Amro International SA and Creon Management SA in relation to the provision of information by the FSA to the SEC. The SEC sent a request to the FSA seeking assistance in relation to its investigation into the Badian brothers and Rhino Advisors Inc. The request was extremely wide, and sought, in effect, all documents created by London-based accountants in relation to Amro, Creon or Rhino over a 9-year period. The FSA issued a notice to compel production of the documents, which was challenged by Amro and Creon. The information sought went beyond the scope of proceedings in the U.S., but the Court of Appeal held that in providing assistance to the SEC, the FSA was exercising an investigatory power rather than a power of "disclosure" or "discovery" similar to that in civil litigation. The FSA could therefore request any documents which the FSA reasonably considered relevant to the SEC's investigation. The Court of Appeal ordered production of the documents, as the information requested did have some relevance to the legal proceedings. Similarly, in the last 2 years, the FSA and City of London Police Financial Intelligence Development Team have assisted the SEC in *SEC v. Stefan Berger et al.* (action to stops sales agents making alleged fraudulent stock

sales telephone calls) and the English High Court has granted a freezing injunction sought by the SEC in *SEC v. Lydia Capital LLC* (the FSA also provided assistance to the SEC in that case).

What does this mean for internationally regulated businesses?

Cooperation between regulators is, in itself, nothing new. However, the extent of cooperation has increased substantially over recent years, and the financial crisis has perhaps created renewed impetus among regulators to use all the tools available to them to uncover and prosecute insider dealing, market abuse and other financial crime.

For regulated firms with international presence, this will mean that, even more so than previously, any potential cross-border regulatory risks must consider the interplay of regulatory regimes in any jurisdiction to which the matter may relate. Advice should be sought early on the differing obligations regarding the provision of documents to regulators and the use regulators can make of those documents, and the risk of related civil litigation (and therefore disclosure of documents provided to regulators) in other jurisdictions. Care should be taken to ensure that documents created by in-house legal advisers in relation to an investigation comply, as far as possible, with privilege requirements in all jurisdictions relevant to the investigation, to limit the risk of loss of privilege where information provided to one regulator on the basis that it is privileged is transmitted to another regulator who may deploy that material in a way which results in loss of privilege.

The level of cooperation between regulators makes settlement of cross-border regulatory investigations substantially more complex, especially as regulators in different jurisdictions may be at varying stages in their investigations. Wherever possible, settlements should be in the context of compromising all investigations.

To circle back to the plea bargaining issues discussed earlier, regulated firms should also be alert to the increased risk of information provided under the auspices of a plea bargain or cooperation agreement being deployed in other jurisdictions. By way of example, when "settling" a regulatory investigation by plea bargain in one jurisdiction, care must be taken to ensure to minimise the risk of action being taken in another jurisdiction, especially where regulators are keen to co-operate by passing information and documents to each other. It is difficult to limit the risk of this taking place, other than ensuring that systems and controls in a business are effective to ensure that only the right people have access to information and documents. It is, however, a key issue when considering how to deal with regulators undertaking an investigation, and strategic advice should be sought early on in such a situation to properly understand the potential regulatory risks.

Recent Developments in the U.S.

Contrary to the approach generally taken by UK regulators and criminal authorities, in the U.S. cooperation agreements and plea bargains have long been accepted features of the enforcement landscape. This general embrace of such arrangements has only deepened recently with several new developments in the securities enforcement realm.

In the last year or so, the U.S. securities enforcement regime has seen a sea change in the approach taken in ferreting out corruption and fraud in the financial services sector. In early 2010, the SEC announced its adoption of an initiative to incorporate new forms of "cooperation agreements" whereby individuals and entities that were targets of an enforcement action would be able to obtain more favorable treatment by cooperating in the SEC's investigation and enforcement process. This initiative imported into the civil enforcement context standards and practices long common in U.S. criminal prosecutions but which had been less frequently seen in civil securities enforcement cases.

The cooperation initiative introduced three new weapons into the SEC's enforcement arsenal:

- **Cooperation Agreements:** a formal written agreement pursuant to which the Division of Enforcement agrees to recommend to the Commission that a cooperator receive cooperation credit in exchange for providing substantial assistance in an ongoing investigation.
- **Deferred Prosecution Agreements:** a formal written agreement through which the SEC agrees to forgo for a period of up to five years from prosecuting a cooperating individual or entity in exchange for compliance with express undertakings (including cooperation during the term of the agreement, no further securities violations, and tolling of any applicable limitations period). If all undertakings are satisfied, the SEC will decline to pursue enforcement of the matter following the end of the deferred prosecution period.
- **Non-Prosecution Agreements**: This program, which is intended to be used only in limited circumstances, entails a written agreement not to prosecute a cooperating individual or entity in exchange for the provision of substantial assistance

and the assumption of express undertakings. As discussed below, this is intended for use in very limited circumstances, and in any event is available only to those cooperators without any past violations.

Considerations employed when determining whether to grant cooperator status

When determining whether cooperator status can be granted, different facts are considered depending upon whether the proposed cooperator is an individual or a company.

For individuals, four considerations are paramount:

(1) the quality of the assistance provided by the co-operator, including: whether or not the assistance was offered prior to the co-operator obtaining any knowledge of the existence of the investigation, how helpful that assistance was to the investigation, whether or not the cooperation was voluntary, and whether the cooperation revealed information that otherwise would not have been so readily obtainable, thus allowing the SEC to conserve scarce enforcement resources;

(2) the importance of the underlying matter to SEC enforcement priorities, and the seriousness of the underlying violations, including whether they were isolated or repeated in nature;

(3) the interest in holding the individual accountable, which takes into account the cooperator's position, education, and level of responsibility, as well as culpability, as well as whether or not remedial steps were taken; and

(4) the profile of the cooperator, including if he or she had a history of noncompliance, acceptance of responsibility, and the ability to commit future violations.

For companies, slightly different factors apply. These include:

(1) whether the company had in place a self-policing mechanism prior to the discovery of the violation, including a culture of compliance;

(2) self-reporting of the violation when discovered, including the conducting of an internal investigation and analysis, followed by prompt and full disclosure of the misconduct to the public and all appropriate regulatory and self-regulatory agencies;

(3) proper and effective remedial efforts, including disciplining the individuals involved, making any necessary modifications to internal control mechanisms, and compensating those damaged by the wrongdoing; and

(4) full cooperation with all law enforcement agencies.

These factors have been incorporated into the SEC's latest version of the Enforcement Manual, which can be found online at http://sec.gov/divisions/enforce/enforcementmanual.pdf.

Two Recent Examples

A brief look at the first uses of a non-prosecution and deferred prosecution agreement helps illustrate the factors that come into play when considering the real-life application of the above principles.

The first use of a non-prosecution agreement was in connection with an investigation into financial fraud and insider trading at Carter's, Inc. ("Carter's"), the children's clothing company. Carter's entered into a non-prosecution agreement in December 2010 and was not prosecuted, although Carter's' former Executive Vice President was charged for the misconduct at issue.

There were a number of factors contributing to the decision not to prosecute Carter's, perhaps most importantly the fact that the conduct appeared to be isolated and that, once discovered, Carter's self-reported the conduct and undertook remedial action. One of the requirements of the non-prosecution agreement was Carter's continued cooperation with any investigation, whether or not the investigation related to the conduct at issue, and this type of requirement may have important repercussions in the future. In addition, Carter's was required to undertake not to publicly deny any of the factual bases of the agreement in any proceedings involving the SEC. Any violation of the agreement would subject Carter's to additional securities enforcement proceedings, as well as the risk of a reference for potential criminal proceedings for knowingly providing false or misleading information.

While this appears to be very one-sided, an important benefit for Carter's set out in the non-prosecution agreement was that, should Carter's come under investigation by any other federal, state, or self-regulatory organization, it could request that the SEC issue a letter to that organization detailing its cooperation, although it could not serve as blanket immunity from any other such prosecution. (A copy of the agreement can be found at http://www.sec.gov/litigation/cooperation/2010/carters1210.pdf.)

The first reported deferred prosecution agreement was entered into by the SEC and Tenaris, S.A. ("Tenaris") in May, 2011. This related to an investigation into Tenaris having made various improper payments to Uzbeki

officials in connection with bidding for government contracts. Tenaris voluntarily disclosed the violations on a timely basis to the SEC. It also conducted an extensive internal investigation, issued a detailed report to the SEC, reviewed its compliance program and undertook to update it with enhanced procedures designed to prevent a recurrence of the violation. The deferred prosecution agreement put off, for a period of two years, any enforcement action, as long as Tenaris tolled any applicable statute of limitations, and continued to cooperate fully during that time period. See http://www.sec.gov/news/press/2011/2011-112-dpa.pdf.

Conclusion

The cooperation program is intended to serve several purposes. First, it should facilitate the developing of evidence by converting scheme insiders to cooperators who would then be able to guide the investigation based on their knowledge. Second, it will smooth the SEC's pursuit of higher ranking violators by offering incentives to lower ranking employees to cooperate, enabling the SEC to focus on the most culpable wrongdoers. Third, it will assist in preserving scarce prosecutorial resources in two ways: by using insiders to propose shortcuts, and through earlier case resolution.

Cooperation also offers significant benefits to cooperators. Most obviously, a cooperator can secure far better terms than would be available should one be later held liable. By cooperating, one can secure an early resolution of the case against one, at far better terms. Second, even if one is still charged with some violation, it is a lesser one, and it can be done in a separate proceeding away from the publicity glare and spotlight of the main case.

The U.S. approach reflects the belief that it often pays to, in effect, make a deal with the (smaller) devil in order to catch the larger one. It also reflects the belief that, by providing incentives to cooperate with law enforcement, ultimately more good can be accomplished. It reflects an approach that prioritizes resolving a problem over an automatically adversarial approach.

What it does not do, however, is in any instance provide a "get out of jail free" card to violators. In order to obtain the full benefit, a cooperator, especially a company, has to admit responsibility and commit to ensuring that no future violations occur. The ultimate goal is that, while resolving a problem that occurred in the past and may have continued to the present, its elimination in the future is ensured.

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The Task Force on New York Law in International Matters: Why It Matters to You

By Stephen P. Younger

New York has long been at the forefront of the global economy. Centuries before the term "globalization" had even been coined, commerce took place on an international scale in New York harbor, among the earliest Dutch, British and Native American traders in Manhattan's first settlements. Over the years, tourists and business people alike have flocked to New York as a cultural, commercial and financial center. The law and the courts of our state have developed in a way that reflects this historic prominence in international commerce. Our global position has necessitated the development of a body of law which is rational, consistent and stable, and courts whose rulings are fair and impartial—regardless of the nationality of the parties before them.

Today, New York law provides the foundation for countless cross-border legal and business relationships. Consider that nearly 90% of the world's most important contracts are drafted in English. Many of these contracts are governed by New York law. There are dozens of factors that lead parties to select New York law as the governing law in their agreements, and to resolve their disputes in New York courts or arbitration centers. Our judges are known for their commercial and financial expertise and high standard of justice. We have a highly respected pool of talented arbitrators and mediators. Moreover, our state is home to a diverse and prominent bar, a large segment of which is routinely exposed to the world's most complex and sophisticated international commercial transactions.

However, the economic challenges that have confronted the legal profession and the global economy generally over the last few years have made it necessary to re-examine the role of New York law as an international standard. Now more than ever, New York faces strong competition from emerging financial centers abroad. Australia, India and Ireland recently established specialized courts to handle international arbitration matters. France, The United Kingdom, Switzerland, Sweden and China—all jurisdictions well-known for international arbitration—have designated specialized courts or judges to hear cases to challenge or enforce arbitration awards. Several commercial centers such as Hong Kong and Singapore have state-of-the-art international arbitration centers. Further, new arbitration laws were recently enacted in France, Ireland, Hong Kong, Scotland, Ghana and other nations to enhance their attractiveness as seats of arbitration.

Formation of the Task Force on New York Law in International Matters

With these challenges in mind, last October, we announced the formation of a new Task Force on New York Law in International Matters. The Task Force was first proposed by the New York State Bar Association' s International Section, and special thanks are owed to Carl-Olof Bouveng and Michael Galligan for recommending this initiative. The main goal of the Task Force was not just to educate the legal community and business world about the benefits of using New York law, but also to ensure that New York law retains its position as an international legal standard of choice for commercial transactions in the global marketplace of choice.

Led by Joseph T. McLaughlin, a well-known international arbitrator, and James Hurlock, former chairman of White & Case LLP, the Task Force was comprised of experts in the fields of finance, business law, arbitration and litigation. More than 30 major law firms, five law schools, four arbitral institutions, lawyers from Canada, Mexico and Germany, and judges participated in preparing the report. Retired New York State Chief Judge Judith S. Kaye of Manhattan (Skadden Arps, Slate, Meagher & Flom LLP) and past chair of the State Bar's Dispute Resolution Section, Edna Sussman (Sussman ADR LLC), served as advisors.

The Task Force published its report this Spring and it was approved by the House of Delegates in June.[1] What follows are some of its main findings.

Advantages of Choosing New York as a Venue for Dispute Resolution and New York Law as the Governing Law in International Agreements

- **Highly qualified judiciary:**

  Complex commercial litigation in the New York State Supreme Court system is likely to be handled by justices in the Court's specialized Commercial Division, which is widely recognized as a forum of choice for business litigations. The U.S. Bankruptcy Court for the Southern District of New York is similarly highly specialized, and given its location in the center of the United States' financial activity, it is a natural venue for major Chapter 11 and 15 cases and litigation within those cases which have an effect on world markets.

- **Freedom of contract and party autonomy:**

  Section 5-1401 of the New York General Obligations Law provides that parties to a commercial contract can choose to have the contract governed by New York law, whether or not the contract "bears reasonable relation" to New York. Conversely, New York law respects parties' choice of foreign law to govern a transaction, even if the parties select New York as the venue for dispute resolution. Parties are also free in New York to vary procedural aspects of New York law. For example, there is typically no bar to waiving the right to a jury trial in a negotiated commercial contract in New York, should the parties choose to do so, provided the waiver is clear and unambiguous, or to choosing arbitration to resolve a dispute.

  New York places few limits on parties' ability to structure their arm's-length transactions in negotiated agreements. Parties are thus free to allocate contractual risk among the parties to commercial contracts as the parties determine is appropriate under the circumstances.

  Finally, under New York law, parties are free to provide for attorney-fee shifting in contractual litigation if they so desire. This ability distinguishes New York law from a number of commercial centers, where the law requires fee shifting or makes it difficult to avoid.

- **Adherence to international commercial standards:**

  New York leads the way in appreciating the value of uniform trade standards when it comes to "minimizing uncertainties in dealing with unfamiliar laws in several foreign jurisdictions."[2] New York law permits the consideration of international custom and practice in resolving disputes arising from cross-border transactions. New York has a tradition of conforming its statutory law to international trade practice.[3] Additionally, the U.S. Supreme Court has recognized that, where international parties are involved, courts may exercise "sensitivity to the need of the international commercial system for predictability in the resolution of disputes."[4]

- **Accession to and compliance with relevant international treaties:**

  New York Courts consistently and impartially enforce those treaties which the United States has ratified. The United States enjoys the benefits of free trade agreements with seventeen countries, in addition to numerous bilateral investment and multilateral treaties intended to stimulate the market and protect private investment. Perhaps most important, from the perspective of businesses drafting international contracts, the United States is party to a number of treaties that harmonize private transnational transactions.

- **Enforcement of foreign judgments and arbitration awards:**

  The United States is party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"),[5] which establishes that commercial arbitral awards issued in any of the 144 countries that have ratified the treaty can be enforced in the United States. Similarly, The Panama Convention provides protection for awards issued in any of the 19 signatory nations in Latin America. New York's version of the Uniform Foreign Country Money-Judgments Act requires New York's courts to recognize and enforce foreign tribunals' monetary judgments, excepting judgments in the areas of tax, penal and family law. While the recognition of foreign judgments remains an important issue in international policy, our State's attitude was defined by the New York Court of Appeals a few years ago when it stated "New York has traditionally been a generous forum in which to enforce judgments for money damages rendered by foreign courts."[6]

- **Finality of litigation and arbitration results:**

  Litigation results in New York are final upon exhaustion of a defined appeal process. Parties cannot, as is possible in some civil law jurisdictions, introduce new evidence at the appellate level. Moreover, arbitration awards are subject to very limited review by the courts.

- **Enforceability of New York judgments abroad**:

  Section 5302 of New York's CPLR provides that it applies to "any foreign country judgment which is final, conclusive and enforceable where rendered." While the reciprocity of foreign courts may not be perfect or automatic, this rule gives York's judgments the best possible chance for recognition and enforcement abroad.

- **Availability of cross-examination**:

  Cross-examination helps to ensure the veracity and completeness of witness testimony, and it distinguishes New York from many civil law systems where cross-examination is not standard.

Advantages of New York as a Forum for Arbitration and Alternative Dispute Resolution

In addition to being home to leading arbitrators, lawyers, and arbitral institutions, New York offers:

- **Strong policies in favor of arbitration**:

  The New York Court of Appeals has repeatedly emphasized our State's strong policy in favor of arbitration, and has reiterated that "New York courts interfere as little as possible with the freedom of consenting parties to submit disputes to arbitration."[7] The U.S. Supreme Court has been similarly steadfast in favoring arbitration in disputes linked to interstate or foreign commerce.[8]

- **Cost effectiveness**:

  Sound case management skills are very often a key ingredient to selection of arbitrators in New York. New York arbitrations are characterized by their efficiency in streamlining pre-hearing disclosure, focusing claims and defenses early in proceedings, and generally structuring proceedings in a way that is convenient and cost-efficient to the extent possible.

- **A commitment to mediation:**

  Mediation has become an integral and beneficial component of New York litigation and arbitration. Many courts now regularly provide for court-appointed or court-recommended mediation, and the efficiency that results can often be very beneficial to the parties. For example, settlement is achieved in the mediation program offered by the United States District Court for the Southern District 88% of the time and in the Commercial Division of Supreme Court, New York County over 50% of the time. Even these figures do not capture the resolutions reached after mediation that are facilitated by the process.

Recommendations of the Task Force Report

In addition to examining the advantages of New York law and New York as a venue for dispute resolution, our Task Force sought to find ways to improve upon our State's position in this area. Below are some of the key recommendations made by the Task Force:

- **Establishing a permanent center for international arbitration.**

  While suitable facilities are available through the providing organizations in New York City and in various New York law firms and other facilities, in order to compete with centers in London, Zurich and Singapore, New York should have a facility dedicated to international arbitration.

- **Creating a degree of judicial specialization, such as a designation of specialized courts, to deal with international arbitration matters**.

  The Task Force report acknowledges that the judges in the Commercial Division of Supreme Court, New York County are seasoned in commercial matters. However, the designation of one or more judges in the existing Commercial Division to hear all matters that come before the court involving international and other commercial arbitration issues could serve to enhance New York's attractiveness to international parties.

- **Creating a "rocket docket" in the court system's Commercial Division to expedite international cases**.

  This option might be attractive to parties involved in international commercial disputes who do not wish to use the full array of procedures available under New York civil procedure law. Such parties might elect, through a clause in their contracts or otherwise, procedures modeled on those available generally in international arbitration, such as use of written witness statements in place of affirmative testimony at trial, limitation of pre-trial discovery procedures (including, generally, an absence of oral depositions), waiver of jury trial and possibly limitations on grounds for appeal. Alternatively, the "rocket docket" concept might be applied to matters related to international arbitration.

- **Using "judicial referee" decisions by New York judges on issues presented to them by foreign courts that require interpretation of New York law**.

  In 2010, the New York Court of Appeals and the Supreme Court of New South Wales, Australia, entered into a Memorandum of Understanding permitting such judicial referee decisions about answering questions of foreign law for the others' courts disputes.[9] The courts of other common law nations are parties to considerable numbers of such bilateral agreements.[10] New York could participate in this network of agreements among courts through further memoranda of understanding. In the longer term, Article VI, #3 of the New York Constitution might be amended to permit a formal

procedure for such certified questions of law from foreign courts.

- **Establishing a council of New York international law firms to promote and advance New York law**.

  The State Bar has devoted resources to this important issue through our task force, but an independent council—maintaining affiliation with NYSBA—could potentially commit greater financial resources to these objectives.

- **Providing continuing legal education programs**.

  Our task force has also recommended that our Association promote domestic and overseas CLEs on drafting international arbitration agreements, primarily for transactional lawyers and in-house counsel.

The Promotion of New York Law as an Impetus for Economic Growth

Why are these issues of importance to in-house lawyers? Obviously, knowing how and why to choose particular legal structuring is important to businesses, but there is an additional factor. Given today's era of international business, it is imperative that New York maintain its reputation for predictability, fairness, neutrality and justice in the resolution of cross-border disputes. The potential for economic growth related to international arbitration in particular cannot be understated. Every year, hundreds of millions of dollars are generated in direct, indirect and tax revenues from such dispute resolution processes—benefiting all New Yorkers. Economic experts estimate that if the business of dispute resolution in New York were to increase by only 10 to 20 percent, it could produce approximately $200 to $400 million in incremental revenues annually for New York lawyers. In addition, selecting New York law clearly helps promote New York commerce.

The development of global business and trade is imperative not only for our economy, but also for developing economies around the world. Our Task Force's report points to the importance of providing legal support for the continuation of the expansion of global business, the foundation of developing economies.

Conclusion

At the New York State Bar Association, we are committed to continuing to educate lawyers, business leaders, bankers and commercial investors about the global role that New York law plays in guiding cross border transactions and resolving international disputes. By working to implement the measures recommended in the Task Force's report, we can help ensure that our State maintains its prominence and even increases its competitive edge within the global legal economy.

No one organization or group alone can publicize all that New York currently offers, or act on its own to implement the changes recommended in this report. In-house counsel, however, are well positioned to promote the use of New York law and New York as a venue for dispute resolution as part of your practice. And, you are uniquely seated to benefit from an understanding of our Task Force's findings.

Endnotes

1. A copy of the report can be found at www.nysba.org/internationalreport.
2. *Corcoran v. Ardra Ins. Co.*, 77 N.Y.2d 225, 230 (N.Y. 1990).
3. *See, e.g.*, *Banco Nacional De Mexico, S.A. v. Societe Generale*, 34 A.D.3d 124, 130 (1st Dep't 2006) (discussing the adoption of Section 5-116 of New York's Uniform Commercial Code).
4. *Mitsubishi v. Soler Chrysler-Plymouth*, 473 U.S. 614, 629 (1985).
5. *See Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 520 n. 15 (1974).
6. *CIBC Mellon Trust Co. v. Mora Hotel Corp.*, 100 N.Y.2d 215, 221 (N.Y. 2003).
7. *Stark v. Molod Spitz DeSantis & Stark, P.C.*, 9 N.Y.3d 59, 66 (N.Y. 2007).
8. *See Scherk v. Alberto-Culver Co.*, 417 U.S. 506 (1974); *Citizens Bank v. Alafabco, Inc.*, 539 U.S. 52 (2003).
9. *See* Press Release, New York State Unified Court System, First of Its Kind Memorandum of Understanding Signed Between U.S. State Court and Australian Court (Oct. 28, 2010) *available at* http://www.nycourts.gov/press/pr2010_14.shtml *and* Announcements, MOU Between the Chief Justice of New South Wales and the Chief Judge of the State of New York on References of Questions of Law (Dec. 20, 2010) *available at* http://www.ipc.nsw.gov.au/practice_notes/nswsc_pc.nsf/pages/538 for the text of the MOU (providing the text of the Memorandum of Understanding.)
10. For example, the Supreme Court of New South Wales, Australia, has signed a Memorandum of Understanding similar to that signed with New York, with Singapore. *See* Announcements, MOU Between the Supreme Court of Singapore and the Supreme Court of New South Wales on References of Questions of Law (Sept. 14, 2010) *available at* http://www.ipc.nsw.gov.au/practice_notes/nswsc_pc.nsf/6a64691105a54031ca256880000c25d7/33cfadb586532d46ca25779e00171f9a?OpenDocument.

Stephen P. Younger is Immediate Past President of the New York State Bar Association and a partner at Patterson Belknap.

New Monthly Breakfast Group for In-House Counsel Focuses on Managing Litigation

By Steven R. Schoenfeld

To succeed in litigation we typically think of the battle in the courtroom, the crushing deposition or the dispositive motion. All are unquestionably important. However, litigation is also typically a time-consuming, expensive and complex process, and a process that needs to be managed like other aspects of a company's business so that the best outcome can be achieved in the most efficient, cost-effective manner. With that end in mind, I launched a monthly discussion group that brings together in-house counsel to discuss practical, everyday issues relating to managing litigation. At each meeting there is a brief presentation on a specific topic of interest, followed by an open discussion of that topic and others. CLE credit is typically provided, and breakfast is served too.

At the first meeting on May 17, the group discussed early case assessments, including the reason they are important to managing litigation, and how they are conducted. That topic was followed at the next meeting on June 21 with a discussion of case management planning, including a review of a sample case management plan form. On July 19, the group discussed litigation budgeting and alternative fee arrangements. The meeting on August 16 was devoted to third-party financing of corporate litigation, including the emergence of investment funds dedicated to investing in such financing and the costs and benefits for corporate parties to litigation.

The meetings are scheduled for the third Tuesday of each month. Thus, the remaining meetings for the year will be on October 18, November 15 and December 20, with topics to be determined as of the writing of this article. The meetings are held from 8:30 a.m. to 9:30 a.m. at the offices of Dorsey & Whitney LLP, 51 West 52nd Street, 9th Floor, New York, New York. Those who cannot attend in person may call in toll free at 800-536-9136, and then dial the access code of 415-9341. All in-house counsel members of the Corporate Counsel Section are welcome at any meeting, whether or not they manage or oversee litigation as part of their responsibilities. If any in-house member of the Section wishes to attend one or more meetings in person or by phone, obtain a copy of the materials for any meeting, suggest or speak on any topic, or discuss any topic relating to managing litigation, they can e-mail or call me at schoenfeld.steven@dorsey.com or 212-415-9341.

Steve Schoenfeld is a Trial Partner in the New York office of Dorsey & Whitney LLP. He handles a wide range of business litigation, including commercial, bankruptcy and intellectual property litigation, and regularly speaks to legal departments and corporate counsel groups about managing litigation and litigation issues.

Alternative Fee Arrangements Program Draws Crowd

Pictured left to right are panelists Rich Friedman (standing), Jonathan Bellis, Mark Flanagan, Gregory McLaughlin, Steven Peri, and Brendan Snodgrass

More than 50 members of the Section and other guests attended a program on April 12 entitled *Alternative Fee Arrangements: Ethical and Other Issues* at The Yale Club. The program was organized and moderated by the Executive Committee of the Section and Section Member Rich Friedman. Many thanks to McKenna Long & Aldridge LLP for co-sponsoring the program.

The panelists were Gregory M. McLaughlin, Senior Attorney, Corporate Litigation, IBM; Brendan Snodgrass, Vice President, Litigation Group, Morgan Stanley; Steven Peri, General Counsel of Cisco-Telepresence; Jonathan P. Bellis, Vice President and Chair, Law Consultant for Hildebrandt Baker Robbins; and McKenna Managing Partner Mark Flanagan. (Catherine Youssef Kassenoff, Chief Litigation Counsel of GAF Materials Corporation and International Specialty Products Inc., had to cancel due to illness.)

Counsel Section Chair Greg Hoffman, Senior Commercial Counsel for BT Americas Inc., said: "The Alternative Fee Arrangement CLE on April 12 was informative and interesting. The panelists provided varied and educated perspectives that gave attendees a wealth of information to utilize when considering and negotiating alternative fee arrangements with outside counsel." Greg also said the reception following the event proved to be a great way for attendees and panelists to meet, continue their discussions, and make new connections. It was, he said, "a fine program on an important topic."

The program provided attendees with an overview of many variations of alternative fee arrangements, as well as information regarding their use in the marketplace. Using non-litigation and litigation scenarios, the program also addressed issues arising from alternative fee arrangements with a particular emphasis on ethics concerns. Among such issues was how Model Rule 1.5 (reasonableness of fees and expenses) can impact fixed fee and "success" fee arrangements. For example, the panelists discussed the obligations of a firm when a fee cap is reached during the pendency of a matter, as well as whether firms are obligated to disclose the existence of relevant briefs and/or transactional documentation when negotiating a fixed fee agreement. They also discussed how widely accepted business practices, such as project management and process management initiatives, can be used by clients and law firms to evaluate the desirability of varying alternative fee arrangements.

Each attendee was given a booklet containing recent articles on alternative fee arrangements and biographies of the panelists. Section members who are interested in obtaining a copy of the booklet should contact Rich Friedman at rfriedman@mlalaw.com or at 212-905-8331.

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June 14, 2011

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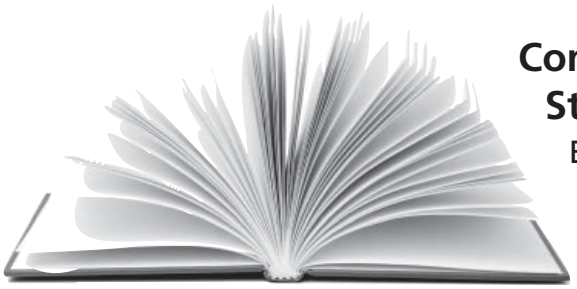

Commercial Litigation in New York State Courts, 3rd Edition

Edited by Robert L. Haig

(West and the New York County Lawyers Association, 2010) 6 Volumes

Reviewed by Janice Handler

The Third Edition to *Commercial Litigation in New York State Courts* has substantially updated and expanded a highly respected classic work. (It, and the second edition, published in 2005, received more than 50 favorable book reviews in legal journals and newspapers throughout the State of New York). The first edition, published in 1995, was written by a group of 63 New York attorneys and judges working under the leadership of Robert Haig of Kelley Drye & Warren LLP, who served as editor in chief and performs the same function in the new edition, which contains 19 new chapters and the work of 144 authors, including 20 judges and the top litigation lawyers in the State.

As with previous editions, the 3rd edition is a comprehensive analysis of substantive and procedural issues in New York State litigation. It is logically arranged as a step by step practice guide that covers every aspect of a commercial case from investigation and assessment through pleadings, discovery, motions, trial, appeal and enforcement of judgments. The 3rd Edition also contains 38 substantive law chapters that cover the subjects most often encountered in commercial cases, including contracts, insurance, sale of goods, banking, securities, antitrust, intellectual property, franchising, and many other commercial law topics. These chapters contain procedural and practice checklists, counseling sections, jury charges, and litigation forms. The books also supply context and commentary relating to the establishment, in 1995, of the Commercial Division of the New York State Supreme Court, which was founded to facilitate the handling of an increasing volume of commercial cases of escalating complexity.

For the in-house corporate counsel (and particularly one who does not do hands-on litigation) a valuable part of this treatise is Volume 4A which deals with a number of topics of relevance and importance in-house. These chapters include "Litigation Avoidance and Prevention," "Crisis Management," "Litigation Management by Corporations," "Litigation Technology," and "Ethical Issues in Commercial Cases," all priority issues for in-house counsel.

"Litigation Avoidance and Prevention"—which is where all corporate counsel aspire to be—is full of practical suggestions, ranging from establishing corporate compliance programs to inserting some litigation avoidance clauses in standard contracts. However, it was somewhat disappointing to find no reference at all to the Federal (U.S.) Sentencing Guidelines. Although this is a treatise on *New York* litigation, in real life, corporate counsel do not establish different compliance plans to deal with the federal and state requirements. Since the federal guidelines outline "gold standard" requirements for corporate compliance plans, we are surprised to see them not mentioned.

This treatise is a goldmine in its treatment of many substantive areas of interest to corporate counsel. While the emphasis is on litigating various subject matters, each chapter includes a comprehensive overview of the substance under discussion. Intellectual Property, Defamation, White Collar Crime, Information Technology, Real Estate, Construction, and many other commercial areas are exhaustively discussed, making this work a one-shelf "go to" legal library. Many of the substantive overviews are clear and exhaustive—the Contracts chapter , for example, does not rest with commercial litigation strategy, but discusses at length those basic concepts of formation of contracts, breach, consideration, capacity, repudiation. The Products Liability chapter reviews all of basic torts as well as sophisticated litigation techniques. (Practitioner, if these books are on your shelf, be prepared to have them borrowed by your son, the first year law student!)

Volume 2 also has some useful material. Chapters on "Investigation of the Case" and "Case Evaluation" provide useful insights (with checklists) into the evaluation of any matter, whether it results in litigation or not. Detailed guidance on the creation of litigation "decision trees" is particularly informative.

Even a treatise this detailed and exhaustive cannot cover every area of interest. As mentioned above, I would have liked to see more co-ordination of state and federal issues. And I would have found the author biographies to be more useful had they been placed at the front of each chapter rather than in a separate volume. But these are nits considered against the scope, comprehensiveness, and expertise of these volumes.

Whether you wish to add this opus to your library will largely depend on the size of your shelves and the amount of hands-on litigation you do. The editors might wish to consider extracting a one volume treatise focusing on the specific issues of interest to the corporate generalist. But generalist or specialist will find much of value and interest in these volumes.

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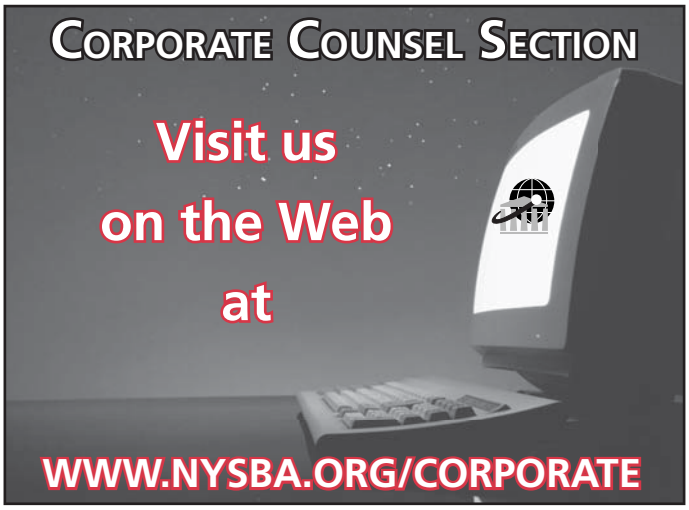

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