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Inside

A publication of the Corporate Counsel Section
of the New York State Bar Association

Message from the Chair

Welcome to the latest issue of *Inside*, the newsletter of the Corporate Counsel Section. This issue features substantive articles of special interest to corporate counsel and includes news of Section activities.

We are pleased to include an article from William J. Kelleher III of Robinson & Cole surveying the first year of experience with the new federal e-discovery rules. Nick Simeonidis of Patton Boggs LLP, with Melanie Lasoff Levs, has contributed an article highlighting the risks faced by consumer products companies and offers practical guidance to survive and thrive in the face of these risks. This issue also features an article by Hal Murry and Rachel Cochran of Baker Botts LLP regarding the European Union Court of First Instance's recent ruling that communications between a corporation and its in-house counsel are not protected by the attorney-client privilege.

The Second Corporate Counsel Institute was held in New York City on October 11 and 12, 2007. Attendees were treated to superb programs led by leading private practitioners and in-house counsel that addressed a wide array of topics of interest to corporate counsel. The Institute also featured the eighth annual presentation of the Section's popular program Ethics for Corporate Counsel. A detailed article describing the program is in this issue. The Program Committee, led by Gary Roth and including Mitch Borger, Steve Mosenson, and Howard Shafer, as well as Terry Brooks of the State Bar's CLE Department, organized a first-class event.

During the past two summers, our Kenneth G. Standard Internship Program has placed law students from diverse backgrounds as summer interns in corporate law departments in downstate and upstate New York. An article written by Barbara Levi, Chair of the Internship Committee, is in this issue. If you would like to participate in this program, whether by serving on the Committee or providing an internship opportunity in your company's legal department, please contact me or Barbara Levi.

Our Section's Corporate Governance Committee is being re-energized under the leadership of Janice Handler. The Committee will provide counsel who deal with issues relating to compliance, Sarbanes-Oxley, corporate governance, ethics, privilege, and internal investigations with a forum in which to exchange ideas and learn from one another. It is designed to be valuable not only to practitioners who devote much of their practice to corporate governance issues, but also to those who deal only occasionally with such matters. If you are interested in this Committee, please contact me, or e-mail Janice at handlerj@aol.com.

Inside

Our Section is in the process of creating a blog with the goal of providing not only a means of notifying you of developments affecting corporate practice, but also providing a forum to exchange practice tips and ideas. The blog will include postings by several authors, and will include a moderated forum for readers to post questions and comments. If you are interested in participating as a contributing author, please e-mail me, or send an e-mail message to Barbara Beauchamp at bbeauchamp@nysba.org.

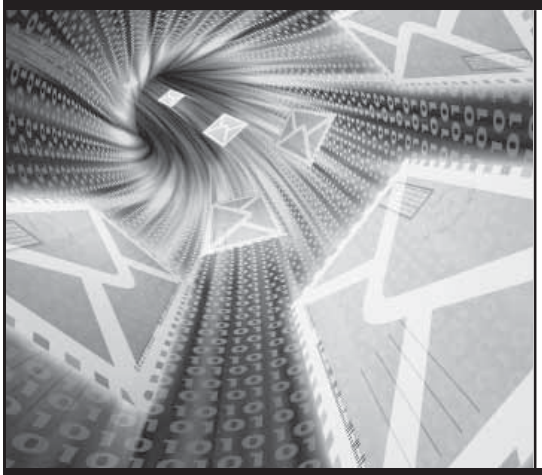
Our next event was a luncheon meeting featuring a CLE presentation regarding Basic Antitrust Issues, held at the headquarters of ConEdison in New York City on November 27, 2007. We are also in the process of planning a program to be held at the New York State Bar Association Annual Meeting. Please save the morning of January 30, 2008 on your calendar and make plans to attend.

We are fortunate to have strong support from Section officers, Executive Committee members, and New York State Bar Association Staff. Through their efforts, we are able to provide programming, materials, and resources to meet the unique needs of corporate counsel. I encourage your active involvement in the work of our Section. In addition to attending meetings and programs, I invite you to become an active member of one or more standing committees. Committee members enjoy rewarding opportunities to enhance expertise, achieve professional development and recognition, and network with other attorneys throughout the state. Through your participation, you can contribute to the work of the Section and help assure that we continue to meet the needs of members of the New York bar working or interested in in-house corporate practice.

I hope you find this issue of *Inside* to be interesting and useful. I thank you for your support of the Corporate Counsel Section, and welcome your active participation. I look forward to seeing you at future Section events.

Steven G. Nachimson

Request for Articles



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The New e-Discovery Rules Online—One Year Later

By William J. Kelleher III

The amendments to the Federal Rules of Civil Procedure concerning e-discovery and electronic documents went into effect about one year ago, on December 1, 2006, with much fanfare. After a lengthy period of study and comment, they mandated several changes in the conduct of federal court litigation and, in particular, discovery of "electronically stored information" ("ESI") for companies of all sizes. The amended Rules apply broadly to electronically stored information of all types: any computer or electronic information that is fixed in a tangible form and information that is stored in a form from which it can be retrieved and examined.

New rules bring opportunities and challenges. The amended Rules have clearly raised awareness of e-discovery and document retention. They have provided some clarity, and helped to formalize e-discovery procedures and sharpen document retention policies. They also present opportunities to save money and time and reduce business disruptions. Anecdotal and other evidence suggests, however, that they may also have created litigation difficulties or not impacted companies that much. Indeed, according to a recent study of litigation trends by a law firm, more than 25 percent of responding in-house counsel reported that the amended Rules made their litigation caseload more difficult and in-house counsel in most industries responded that the amended Rules have created more litigation-related hardships than improvements. Many companies reported no change in their handling of federal court litigation.

One year later, how have companies fared under the amended Rules? Certainly, many instances of e-discovery are successfully negotiated between the parties or resolved by courts without published rulings. But, based on the reported cases, have the amended Rules been as significant as thought? What have been the major areas of dispute and court attention so far on ESI? Have some of the predicted litigation trouble spots materialized? And what are the emerging issues in the near future on the e-discovery front? The following developments highlight the first year under the amended Rules.

The Duty to Preserve ESI

Perhaps one of the more challenging issues for corporate counsel in the e-discovery age is the duty to preserve ESI. Although the principle is clear, properly preserving documents in a timely and reasonable manner in the heat of (or on the eve of) litigation may be more easily said than done. In addition, courts will always be looking at the issue later through the prism of hindsight to determine if the steps taken by a company are defensible.

Amended Rule 26(f) contemplates the duty to preserve. It states that parties must meet and confer early in the case to "discuss any issues relating to preserving discoverable information." Following from the *Zubulake* line of cases in the Southern District of New York, the standard for triggering the duty to preserve is that it is triggered when a party "reasonably anticipates" litigation or an investigation, and a company "must suspend its routine document retention / destruction policy and put in place a 'litigation hold' to ensure the preservation of relevant documents" (i.e., when a party is on notice or should be on notice from attendant facts and circumstances). *See Zubulake v. UBS Warburg*, 220 F.R.D. 212, 218 (S.D.N.Y. 2003). The duty may also arise by statute or regulation or under a common law.

In the reported cases during the last year, courts have taken a hard look at parties who do not properly or timely preserve ESI. Some tough consequences have followed where obligations were not met, but not so in every case. The primary reason appears to be that the trigger for the duty to preserve can often be very early, well before litigation is actually filed or an investigation is formally started.

In re NTL, Inc. Securities Litig., 2007 WL 241344 (S.D.N.Y. Jan. 30, 2007), a long-running securities class action pre-dating the amended Rules, the court held that the defendants' failure to preserve e-mails and ESI despite a litigation hold warranted an adverse inference for spoliation and an award of attorneys' fees for plaintiffs. There, the court found that the duty to preserve was triggered even before the company's bankruptcy filing and the first class action was filed. *Id.* at *15 (citing both pre- and post-amendment authorities). Similarly, in *Doe v. Norwalk Community College*, 2007 WL 2066497 (D. Conn. July 16, 2007), the court imposed an adverse inference and granted plaintiff reimbursement of expenses for the retention of a forensic expert hired to examine defendants' computers. In *Doe*, the court found the duty to preserve was triggered several months before the filing of suit by a meeting held between key people concerning the incident involving the plaintiff. *Id.* at *3. Defendants failed to preserve e-mails, hard drives and retired computers, but further aggravating factors existed including that defendants had evidently ignored their document retention policy and there was no litigation hold implemented. *Id.* at *3 & *5-6.

In *Peskoff v. Faber*, 244 F.R.D. 54 (D.D.C. Aug. 27, 2007), the court ordered the defendant to participate in submitting cost proposals for forensic testing of his computers to determine if his deleted e-mails could be retrieved from the time period after he was on notice of potential litigation with the plaintiff, his business partner. *Id.* at 60 and

63; *United Medical Supply Company, Inc. v. United States*, 77 Fed. Cl. 257, 274 (Fed. Cl. June 27, 2007) (defendant found to have recklessly disregarded duty to preserve documents over extended period, imposing sanctions of preclusion of expert testimony and certain cross examination, discovery costs and attorneys' fees).

On the other hand, in *Cache La Poudre Feeds, LLC v. Land O' Lakes, Inc.*, 244 F.R.D. 614 (D. Colo. 2007), the court held that an initial telephone call between the parties and plaintiff's equivocal follow-up demand letter did not trigger defendants' duty to preserve documents on numerous file servers where there was a two year gap between the time of the initial call and letter and the time of the filing of suit and service of a document preservation notice. *Id.* at 620-24 (noting recent amended Rules and that wholesale suspension of automatic delete features can be prohibitively expensive and burdensome). Therefore, the court denied plaintiff's motion for sanctions concerning defendants' continued deletion of e-mail and overwriting of backup media. *Id.* at 624.

The "Safe Harbor" of Rule 37(f)

On a related issue, new Rule 37(f) was designed to address the routine alteration and deletion of ESI during ordinary use. This is the so-called "safe harbor" provision of the e-discovery rules, which was one of the most controversial amendments. It states: "Absent exceptional circumstances, a court may not impose sanctions under these rules on a party for failing to provide electronically stored information lost as a result of routine, good-faith operation of an electronic information system." Amended Rule 37(f) recognizes that the destruction or alteration of ESI occurs during the routine operation and use of a party's computer system for reasons that have nothing to do with litigation and because ESI is dynamic by its nature.

However, this Rule and its good-faith standard for reviewing lost or overwritten data raises the possibility of spoliation and sanctions. As the Advisory Committee Notes to the amended Rules suggest, when the company has a pending case or notice of a litigation or investigation or claim, as the case may be, the good-faith requirement is understood to require a party to suspend or modify the routine operation of a retention policy and destruction of ESI through a document or "litigation hold." *See* Adv. Comm. Notes to 2006 Amendments. The risk of spoliation can spell litigation trouble depending on the circumstances. Accordingly, many companies now regularly use formal litigation holds.

To date, there have not been many cases that have affirmatively addressed the safe harbor provision of Rule 37(f). Courts that have addressed it thus far generally hold that there was a failure to preserve ESI such that a party could not claim the benefits of the safe harbor. In *Disability Rights Council of Greater Washington v. Washington Metropolitan Transit Authority*, 242 F.R.D. 139 (D.D.C. 2007), the court found that the defendant could not find shelter under Rule 37(f) because it did not implement a litigation hold and the amended Rule did not exempt a party who clearly failed to stop the operation of a system that obliterated e-mails. *Id.* at 146. In *Peskoff*, the court ruled that further forensic testing should be considered because defendant had not turned off the automatic deletion function of his computer system once aware of the potential for litigation, and thus could not claim the benefit of the safe harbor. 244 F.R.D. at 60. Finally, in *Doe*, the court likewise found the defendants could not take advantage of the safe harbor because they failed to suspend their destruction and in fact never really had a routine electronic information "system" in place. 2007 WL 2066497, *4.

The State of Metadata

Metadata is another area that presents one of the biggest challenges in electronic discovery. *See The Sedona Principles*, Principle 12 (2d ed. June 2007). Metadata is data about data. In general, it is hidden information automatically embedded in most word processing and spreadsheet files, as well as other electronic communications. For instance, when an e-mail with an attached document is sent, unless cleansed, the document includes metadata that may reveal confidential information. Some metadata can be seen easily by users, while other metadata is not readily available to people who are not tech savvy. Metadata may include embedded formulas, file size, previous document authors, identification of the computer used, tracked changes, document revisions, hidden text, cells or comments, and other file properties and information.

As a default position, the amended Rules require that ESI be produced in the form "in which it is ordinarily maintained [or] reasonably usable." Rule 34(b)(ii). Most companies maintain data in native file format, i.e., the original file format such as Word or Excel, as opposed to a static format such as PDF or .tif. Native file format usually includes the metadata for a particular file.

Many times, parties request metadata in discovery because it can provide a wealth of important and useful information, and it may be needed to properly use or review the ESI. The request may be made even though issues such as document authenticity or content or the true date of a document are not material to the case. However, because of various legal objections and technical issues including lack of relevance and evidentiary value, the fact that native file documents cannot be Bates stamped or redacted, and that metadata can be altered (even inadvertently), responding parties frequently object to the production of metadata.

Leading up to the amendments, some parties routinely requested, if not used, a working presumption that metadata should be produced. *See Williams v. Sprint/United Mgmn't Co.*, 230 F.R.D. 640 (D. Kan. 2005) (analyzing background of metadata and finding that defendant

company should have produced spreadsheets with metadata intact and without cleansing; plaintiffs were entitled to documents with metadata); *Celexa and Lexapro Prod. Liab. Litig.*, 2006 WL 3497757 (E.D. Mo. Nov. 13, 2006) (comprehensive agreement to produce electronic data in searchable form including native file format and, to the extent applicable, with metadata). In the pre-amended Rules case of *In re Priceline.com Inc., Securities Litig.*, the court ordered defendant company's ESI production in .tif or PDF format, but required the original data to be maintained by the defendants in its original native file format for the duration of the case. 233 F.R.D. 88, 91 (D. Conn. 2005) (relying on then-proposed Rule amendments as guidance); *see Nova Measuring Instruments Ltd. v. Nanometrics, Inc.*, 417 F. Supp. 2d 1121 (N.D. Calif. March 6, 2006) (ordering production in native format because producing party "offers no reason why" the order should not issue).

The amended Rules and comments do not provide detailed guidance as to whether a party's ESI production would encompass metadata. However, since the amended Rules, courts usually require a specific showing of a particularized need or relevance to the case before ordering production of metadata and embedded data. *Kentucky Speedway, LLC v. National Association of Stock Car Auto Racing, Inc.*, 2006 U.S. Dist. LEXIS 92028 (D. Ky. Dec. 18, 2006) (Rule 34(b) does not require production of metadata absent a showing of a particularized need; noting, metadata does not provide relevant information in most cases); *compare In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation*, 2007 WL 121426 (E.D.N.Y. Jan. 12, 2007) (finding amended Rules applicable and directing plaintiff to make future productions of ESI with metadata); *see also Wyeth v. Impax Laboratories*, 2006 WL 3091331 (D. Del. Oct. 26, 2006) (production in native format not required in the absence of foreseeable or necessary requirement for accessing metadata); *Hagenbuch v. 3B6 Sistemi Elettronici Industriali S.R.L.*, 2006 WL 665005 (N.D. Ill. March 8, 2006) (metadata ordered produced because relevant to establishing chronology of case).

After the amendments, another court adopted a general protocol and guide for parties to deal with electronic discovery that suggests metadata is usually not relevant to the case, subject to the particular facts. *See* Suggested Protocol for Discovery of Electronically Stored Information, Dist. Maryland (2007) at 25 ("[M]eta-data, however, may not be relevant to the issues present or, if relevant, not be reasonable subject to discovery given the Rule 26(b)(2)(C) cost-benefit factors.") (*found at* http://www.mdd.uscourts.gov/news/news/ESIProtocol.pdf.).

Emerging e-Discovery Issues

By its nature, ESI is an ever expanding subject. According to the Advisory Committee Notes to amended Rule 34, the definition of ESI was intended to be expansive to cover current technology as well as future advancements. That expansive reach is already happening. Several potentially important e-discovery developments have started to generate judicial attention.

One such issue of ESI is random access memory (RAM). In *Columbia Pictures, Inc. v. Bunnell*, 2007 WL 2702062 (C.D. Calif. Aug. 24, 2007), the court held that information or data stored in a computer's random access memory (RAM) constitutes ESI subject to discovery even though information in RAM may be held for a short duration. Another developing ESI issue is instant messages (IM). Although IM has been around for years, it has not garnered much attention until recently when its popularity increased. In *Celexa and Lexapro Prod. Liab. Litig.*, the court ordered plaintiffs to preserve all IM. 2006 WL 3497757, *1. Yet in *Malletier v. Dooney & Bourke, Inc.*, 2006 WL 3851151, *2 (S.D.N.Y. Dec. 22, 2006), the court pointed out that not all IM is "stored" or saved in a form from which it can be retrieved and examined, and thus, suggested that it may not qualify as ESI. How the weight of authority comes out on these issues remains to be seen.

* * *

Electronic discovery is rapidly evolving and potentially one of the more challenging endeavors facing companies of all sizes today and in the coming years. Decisions in the first year under the amended Rules underscore the importance of the duty to preserve, litigation holds, metadata and proper retention of ESI. Developing ESI issues are also on the horizon. In today's legal environment, taking the proper steps to prepare for and conduct the e-discovery process is thus more important than ever. With the amended Rules and these cases in mind, companies and organizations can develop an integrated approach, and document retention policies that formalize and ease the electronic discovery process.

Mr. Kelleher is a member of the Trial and Appellate Practice Group at Robinson & Cole in Stamford, Connecticut and New York City. His practice focuses on commercial litigation, class actions, corporate and fraud matters, directors and officers and fiduciary duty litigation, and securities litigation. He also represents companies and individuals in internal investigations; government and regulatory investigations; and white-collar criminal cases including investigations, enforcement matters, administrative proceedings, and trials brought by the U.S. Securities and Exchange Commission, the U.S. Attorney's Offices in Connecticut and New York, the Connecticut State Attorney General's Office, and the State Ethics Commission. Mr. Kelleher is a member of The Sedona Conference Working Group on Electronic Document Retention and Production. He manages large-scale e-discovery cases and consults with companies to develop e-discovery standards, document preservation and collection protocols. He is active in bar and business organizations concerning e-discovery issues.

Consumer Products in the Cross-Hairs

By Nick Simeonidis with Melanie Lasoff Levs

The marketplace for consumer products in America today can seem like a minefield for in-house counsel—lead paint in children's toys, dangerous tires, pathogens in hamburgers and vegetables, and toxins in fish, juice, toothpaste, and pet food. The perception is hardly unwarranted.

In the fall of 2006, *E. coli* bacteria in bagged spinach killed three and sickened more than 200 people in 25 states. In the end, some 37 different brands of bagged spinach were found to contain the pathogen. The U.S. Food and Drug Administration (FDA) concluded that the widespread contamination could be traced to a single lettuce field. In September of that same year, one *million* cribs were recalled after three infant deaths were traced to design flaws. This past summer, a major toy manufacturer recalled tens of millions of toys over concerns about lead paint and tiny magnets that could be harmful if swallowed. And only a few months ago, a major manufacturer of hamburger patties closed its doors after a massive, reputation-destroying product recall event.

According to the Consumer Product Safety Commission (CPSC), deaths, injuries, and property damage from consumer product incidents cost the nation more than $700 billion annually. Though notoriously understaffed for its mission, the CPSC nonetheless issued 320 product recalls through the third quarter of fiscal 2007. While the number of dangerous or reputation-ruining products and product recalls is actually quite small relative to the tens of thousands of consumer products that reach the market each year, one negative story can be enough to capture the attention of consumers and significantly impact upon a company, in some cases catastrophically. Avoiding such recalls and the attendant bad publicity is a challenge for any consumer products company. This is especially true for smaller companies without large in-house counsel and public relations staffs. Fortunately, there are policies and procedures that can help companies avoid many of these problems. But preventing and managing product safety issues takes planning, training, and oversight.

Scrutinize Your Supply Chain

The potential source of risks for consumer product makers and distributors is growing. Thanks to globalization, more products and their components are being manufactured and imported from overseas. Supply chains are longer than ever, and more companies are forging complex supply partnerships to maximize efficiency and remain competitive.

Underlying many of the issues that companies face in maintaining the quality of their products is the fact that, increasingly, they rely on overseas suppliers in countries where environmental, health and safety, or workplace standards are more lax than in the United States. That's why it is important that companies keep a close eye on their supply chains. Failing to audit and monitor suppliers can result in significant problems with regulators along with unnecessary product liability exposure. More than ever, it is imperative that companies audit suppliers, have supply contracts with appropriate protective provisions, and generally engage in efforts to ensure that the goods they receive are in compliance with U.S. laws.

In the current environment, many companies hire third party auditors to conduct inspections, though larger companies often send their own personnel to inspect suppliers. Inspectors check for documentation of compliance with U.S. laws, compliance with the FDA's good manufacturing practices (GMPs), and evidence of product testing. One way for a company to increase control over manufacturing is to own and operate its overseas factories. But even this does not insulate a company from problems. After being accused of running sweatshops in Asia in the 1990s, for example, a major toy manufacturer took ownership of Chinese factories producing core products and was considered a model in its attention to workplace conditions and product safety. But in September 2006, the company acknowledged that the root of the massive summer recall was not in manufacturing problems but in product design flaws. And some of the recalled toys were produced at factories the manufacturer still does not own. In any case, owning your own factory for every component is unrealistic for most companies, particularly for those that sell hundreds or thousands of different products.

A good supply contract is also important for preventing many supply-chain problems. Such contracts should include assurance that the supplier has the financial resources and insurance to deal with a product integrity problem as well as adequate internal compliance safeguards. The contract should include any appropriate regulatory provisions and indemnifications. Other provisions should clearly delineate which party is responsible for reporting to regulators, implementing recalls, making public statements, and generally complying with legal and regulatory obligations in the United States. Counsel should also consider requiring suppliers to engage in specific testing regimens before shipping goods to the United States. As the last defense, supply contracts should make clear that the supplier submits to jurisdiction in a neutral forum. If an arbitration clause is preferred, the contract should specify that any dispute must be resolved before a

recognized international arbitrator applying familiar and unbiased rules.

Don't Rely on Regulators

Widely publicized food recalls have led to increased scrutiny of government agencies charged with ensuring the safety of the nation's food supply. The FDA, for example, inspects less than 1 percent of food imports, down from 8 percent in 1992, when imports were less common. Given the media's attention to food safety, the FDA is likely to increase enforcement activities, at least in the short term. As with any government agency, though, resources are an issue. A former associate commissioner of the FDA, William Hubbard, testified before a House subcommittee in July, saying he believed that the agency should at least double its food-safety personnel. "The FDA's import screening process was designed for an earlier era, and there is ample evidence that it is not adequate in today's world," Hubbard told the committee. "The changes wrought by a globalized economy are stark, and even alarming, in the context of the FDA's responsibility to assure the safety of our food."

Government agency inspectors should take a closer look at prioritizing inspections of facilities located outside the United States. My partner at Patton Boggs, Paul Rubin, proposes mandating a triage system so that products more likely to pose risks—such as high-risk food or other ingestible items—get more scrutiny. Under his scheme, products from countries known to have lower product standards than the U.S. would also face stricter inspection.

Many prominent consumer product attorneys agree that additional scrutiny at the border is necessary. But American companies themselves should also be more rigorous in ensuring that foreign suppliers are fully informed about U.S. safety and security procedures. Failing to provide guidance and training and just relying on the Fed's border enforcement makes as much sense as relying solely on traffic cops to ensure good driving skills, and failing to provide driver's ed.

The CPSC has jurisdiction over consumer products outside of food and drug, vehicles, and alcohol, tobacco, and firearms. As such it handles a wide variety of product recalls. But it has a reputation for being a notoriously "sleepy" agency. For example, some in Congress have accused the agency of acting too slowly in a recent, highly troublesome crib recall. There may be ample justification for the reputation. The agency's full-time staff has shrunk to half its 1980 size. One commissioner, Thomas Moore, has charged that the agency is being starved through underfunding. In a press statement released in July, he said many at the agency "are looking for other jobs because they have no confidence the agency will exist (or will exist in any meaningful form) for many more years." This year the agency endured a vacancy on its three-member commission for more than six months, which crippled its ability to make rules about product standards and to mandate recalls. CPSC spokeswoman Julie Vallese says that the agency is continuing its enforcement and compliance efforts.

For their part, manufacturers, distributors, importers, and retailers are required by federal law to report to the CPSC any potential hazards from a product within 24 hours. Most companies heed that law and voluntarily issue a recall, says CPSC spokeswoman Patty Davis. "The vast majority of businesses are, in fact, responsible. They sell quality products, and they want to keep consumers safe and build a loyal customer base," Davis says. "More businesses today are understanding that it's good business to keep consumers safe."

Preventing Problems Before They're Problems

Even the most well-intended companies may be tempted to blame suppliers or regulators when things go wrong. But in-house counsel should know that the company that puts its name on the label also puts itself on the line when it sells a flawed, faulty, or contaminated product. These companies must be willing to shoulder the time, expense, and commitment that are required in order to prevent problems before they happen. According to Chris Hagenbush, former senior counsel at the Coca-Cola Company and another of my partners at Patton Boggs, "In the short term, you're at a competitive disadvantage with companies that don't take care of these issues," he says. "But in the long term, you'll win, because those companies don't have a long term."

The intensity of public concern over product integrity and the increasingly global, and vulnerable, supply chain combine to create a dire need for consumer product companies to take an active and aggressive approach to safety and compliance. The mistake most such companies will make is failing to address such issues before they become critical—before the lawsuit is filed, before the front page article appears in *The Wall Street Journal*, before the attorney general issues an investigative demand.

This proactive approach requires a variety of strategies. Internal compliance is maintained through enforcement of industry-specific codes of conduct and thorough, regular, and properly documented training of employees. Periodic compliance audits can alert in-house counsel to potential trouble spots that can be corrected without the glare of public scrutiny. Posting a piece of paper on the company bulletin board is no longer sufficient as a compliance program. And good recordkeeping is essential.

Companies whose facilities are subject to inspection should be prepared for such inspections at any time. A clear process should be adopted for managing inspections such that they are routine, rather than traumatic, events. Among other things, the process should identify who will be notified when an inspection occurs and which em-

ployees are trained and qualified to handle such inspections. These employees should know, for example, what circumstances would allow the FDA to inspect records and documents. A factory inspection is not the place for improvisation, and planning is critical.

Corporate responsibility programs help demonstrate to the public and policy makers that the company is being a good public citizen. This builds up goodwill in the minds of consumers and potential regulators that can help inoculate a company from being tarred by a bad public relations event in the future. For example, a beer company can devote resources to educating consumers not to drink and drive, and thereby associate itself with the concept of responsibility in the public mind.

Companies should also have crisis management plans in place. The key to such plans is to agree in advance upon the relevant lines of communication. Determine who will be on the crisis management team, how they will each be alerted to the event and developments, and how will they communicate to one another regardless of the time of day or day of the week. Also decide who will speak publicly for the company, as well as the relevant audience. Many companies fall into the trap of communicating only in reaction to press reports, rather than controlling their own message in a crisis and communicating to key constituencies, for example, shareholder groups.

Not least, companies should forge strong relationships with relevant regulators, representatives and potential adversaries such as state attorneys general. To the extent that a company can demonstrate it is doing its part to help minimize any negative impact on society from its operations, that will benefit the company and its shareholders in the long run. The public at large and policy makers then will be more likely to think of the company as a good actor, a first impression that might one day prove handy.

Nick Simeonidis is a Partner in the New York office of Patton Boggs LLP. Melanie Lasoff Levs is a freelance writer.

Paul Rubin and Chris Hagenbush, both Patton Boggs Partners in the Washington, D.C., office, contributed, as well.

EU Court Decision: No Attorney-Client Privilege for In-House Counsel

By Hal Murry and Rachel Cochran

On September 17, 2007, the European Union's second-highest court dismissed a Dutch chemical company's complaint seeking to keep communications between company executives and in-house lawyers confidential. The Court of First Instance held that communications with in-house counsel were not protected by the attorney-client privilege, known as the legal professional privilege in the EU. The European Commission conducted a search at the company's offices in Manchester, Britain, in February of 2003 in connection with a price-fixing investigation and seized documents that became the subject of dispute before the Court. Two of those disputed documents were e-mails exchanged between the general manager and the company's coordinator for competition law, who was a member of the legal department but also a member of the Netherlands Bar at the time of the communications.

The company argued that communications with in-house lawyers who are also members of the bar of a Member State of the EU should be protected from disclosure. Although previous EU judicial precedent indicated that only communications with "independent" lawyers were protected, the company argued that in-house counsel should be considered independent with regards to legal communications because they are under the same obligation as outside counsel not to participate in any illegal activities, withhold information or obstruct the administration of justice.

The Court of First Instance noted that the Court of Justice, the EU's highest court, has held that communications between a lawyer and his or her client are protected as confidential "only to the extent that the lawyer is independent, that is to say, not bound to his client by a relationship of employment." Case 155/79 *AM & S v. Commission* [1982]. The Court of Justice thus defined independence in negative terms, such that a lawyer cannot be independent if that lawyer is bound to his or her client by employment. The Court of First Instance went on to explain that this requirement of independence is based on the concept of the lawyer's role as a collaborator in the administration of justice by the courts who is required to provide such legal assistance as is needed in full independence from the client. Attorney-client communications are privileged only when the lawyer is structurally, hierarchically and functionally a third party in relation to the company that is receiving the legal advice. The Court concluded that based on this precedent, communications between a lawyer employed by the company and a manager of a related company are not covered by the attorney-client privilege.

The attorney-client privilege therefore does not apply to communications with in-house counsel. However, on a limited basis, the privilege applies to protect documents prepared by in-house counsel when those documents are prepared *exclusively* for the purpose of seeking legal advice from outside counsel in exercise of the company's rights of defense. This privilege also applies to other employees of the company who prepare documents exclusively for the use of outside counsel. The protected documents may be working documents or summaries drafted for the purpose of providing the outside lawyer with an understanding of the context and scope of the facts and circumstances in which his or her legal advice is sought. The Court clearly stated that outside counsel can engage in a company's self-assessment and identification of strategies, in full cooperation with the company's relevant departments, including the internal legal department. However, as stated above, those documents would be protected no matter which employee of the company created them, so there is no privilege for in-house counsel that goes beyond the privilege extended to other employees of the company.

Under EU law, this case highlights the risk to multinational companies of forfeiting the attorney-client privilege when using in-house counsel on important or sensitive legal matters. According to the Court, communications between the company and its in-house counsel are not privileged and may be used by the European Commission in a price-fixing investigation against that company. Documents created by the company or its in-house counsel may be protected, but only if they were prepared exclusively for the purpose of obtaining legal advice from outside counsel in exercise of the company's rights of defense. In contrast, the Court of First Instance confirmed that communications relating to legal advice between the company and outside, independent counsel would be covered by the attorney-client privilege.

For the text of the EU court decision:

http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=EN&Submit=rechercher&numaff=T-125/03

For the official press release:

http://curia.europa.eu/en/actu/communiques/cp07/aff/cp070062en.pdf

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Highlights from the Second Corporate Counsel Institute

By Howard S. Shafer and Thomas F. Cusack

The Corporate Counsel Section held its Corporate Counsel Institute at the Yale Club on October 11 and 12, 2007. This was the second year the Institute was held and it incorporated the annual "Ethics for Corporate Counsel" Program. More than 150 Corporate Counsel from companies of all sizes attended. The plenary sessions included: Employment Law; Working with Outside Counsel; Media Awareness; Electronic Litigation Tools; Intellectual Property; and Ethics for Corporate Counsel.

Workshops were also held on each of the topics, as well as some additional ones. Participants selected two workshops. The workshops included: Current Issues in Compliance and Management; Negotiation; Accounting; Electronic Litigation; Working with Outside Counsel; Employment Law; Creating Best Practices for an In-House Compliance Program; Real Estate for Corporate Counsel; Intellectual Property; and Creating an In-House Diversity Program.

The Keynote Speaker was Sean Carter. Mr. Carter is a graduate of Harvard Law School and worked both as inside and outside counsel prior to becoming a legal humorist. Mr. Carter entertained the crowd over lunch on day two. He had a number of suggestions for reducing stress in the workplace. Counsel were told to "get a clue, get a grip and get a life" to help them reduce stress and strike the proper work/life balance.

He shared a number of his experiences and mentioned the various titles bestowed upon him and other Corporate Counsel as rewards for their hard work. Legal Emperor and Senior Allied Commander were some few had heard and drew loud laughs from the crowd.

Mr. Carter emphasized the importance of praise as a means to be an effective leader. As a practicing attorney, a trip to the hospital showed him firsthand that as important as you think you are "we will go on without you." He reminded all to "get your life" so you are not remembered for what you had or a title you held.

The topics were timely, interesting and well presented. The bonus was 14.5 CLE credits. What follows are some highlights.

Employment Law

The Employment Law panel discussion focused on the hot topics of privacy, wages and hours, and violence and drugs in the workplace. The importance of notifying employees of policies for e-mail and Internet usage was emphasized by the panelists. Counsel were reminded not to forget the traditional privacy issues such as access to the workplace and use of cameras. The importance of not overburdening HR departments with numerous and voluminous policies was emphasized. Violence in the workplace was identified as a hot topic and the importance of adopting a zero tolerance policy was discussed.

Collective actions are a trend in the wage and hour area. The actions include job classification and meal/rest break issues. Companies with like operations in multiple locations were advised to compare operational performance. Significant deviations could suggest that different locations are treating wage and hour issues differently.

With alcohol and drugs in the workplace, consistency is key. One of the large employers performing pre-employment screening and random drug testing recommended including management personnel in the voluntary testing. With the holiday season approaching counsel was cautioned to be vigilant with alcohol policies.

Working with Outside Counsel

The Working with Outside Counsel session was broken up into three topics and featured Senior Corporate Counsel from large and small corporations. Robert L. Haig, Esq., moderated the discussions. The topics included: Selection of Outside Counsel by Corporations; Fee Arrangements and Billing Procedures; and Planning and Budgeting. Attendees were treated to important information and insight into these areas. The session included a lively exchange between the panel and the moderator and questions from the audience were taken.

Media Awareness

The media awareness session featured *New York Law Journal* Editor-in-Chief Chris Fisher and James F. Haggerty, Esq. The combination made for a very interesting back-and-forth between a notable representative from the press, who emphasized the media's desire to get the facts and counsel's role in controlling the flow of information, and Mr. Haggerty, who suggested that when the media shows up unannounced at your doorstep, invite them in for coffee and water while you plan and prepare a statement. Both panelists agreed that "no comment" is no longer acceptable and emphasized the importance of correcting significant errors in reporting. In the age of electronic databases, corrections are appended to the original story.

Electronic Litigation Tools

Counsel were treated to a succinct and informative discussion of the complex issues of electronic litigation

and the available tools. The history and meaning of the *Zubulake* decisions were discussed and the necessity of attending to e-discovery issues early on was emphasized. A common theme included the importance of ensuring communication between the Legal Department and the IT Department. The panel discussed the various places where Electronically Stored Information could be found and the need to negotiate the scope of the discovery. Senior Employment Counsel Anita J. Wilson discussed the challenges in-house counsel face in managing Electronically Stored Information.

Intellectual Property

Day one finished with an informative and entertaining presentation by Barry Slotnick, Esq., which featured a video appearance by Johnny Carson. Barry critiqued a vintage presentation of copyrights and trademarks to explain the material to the crowd. He advised companies receiving unsolicited material to have a system in place to return it immediately without revealing it.

Ethics for Corporate Counsel

Day two began with the annual Ethics for Corporate Counsel program. The discussion focused around five hypotheticals involving options backdating and a joint SEC / DOJ investigation and a sixth hypothetical involving software piracy. The scope of communications and applicable privileges were raised. The dual role of counsel in giving business advice and legal advice and the impact on privilege was addressed. Counsel were reminded that while court decisions are binding, Bar Association opinions are not. Nevertheless, Bar Association opinions, where reasonably relied upon, will likely impact any sanction favorably.

The importance of having a reporting chain of command in the legal department was emphasized. Supervision of lawyers by lawyers is important not only from an ethical and best practices standpoint, but also for privilege purposes.

The last segment focused on whether a lawyer can use deception in an investigation. Five years ago the answer would have been no. Since then there has been a judicial erosion of the outright prohibition.

Current Issues in Compliance and Management

Current Issues in Compliance and Management featured a discussion by Reese W. Morrison, Esq. Topics included budgets, performance metrics, processes and procedures and Best Practices. The importance of responding specifically to requests for proposals was emphasized. Alternative billing arrangements were explored. The use of outside temporary attorney services, retired lawyers and paralegals was discussed.

Negotiation

The negotiation workshop featured Attorney James C. Freund. He emphasized the need for lawyers to resolve business disputes through negotiation and mediation rather than to defer to litigators. He also discussed why a negotiated resolution is better than litigation.

Accounting

The Accounting for Lawyers workshop was led by Martin J. Lieberman and Elliott M. Oguinick, whose practices focus on business valuation. The group discussion examined the ins and outs of properly valuing business and the factors that go into it. The speakers emphasized the importance of PGM—performance, growth and management—in evaluating a business.

Working with Outside Counsel

The Working with Outside Counsel workshop featured two additional segments. They included Litigation Management by In-House Counsel and Partnering Between Inside and Outside Counsel on Transactions. Attendees were again treated to important insights into these timely topics by Senior Corporate Counsel with the assistance of Mr. Haig.

Electronic Litigation

The session was led by Hillel I. Parness. In this smaller session the group had an opportunity to delve more deeply into the issues of Electronic Litigation and Electronically Stored Information. Attendees had an opportunity to exchange ideas and experiences and to workshop ways to deal with these complex issues.

Employment Law

The Employment Law session was led by Mercedes Colwin, Esq. Counsel had an opportunity to explore some of the hot topics touched upon during the panel discussion.

Creating Best Practices for an In-House Compliance Program

This workshop was led by Keith P. Darcy. Best legal and business practices were discussed. The group was treated to a brief overview of what can happen when best practices are lacking, including mention of some of the high-profile companies from the headlines. These events, together with SOX, have caused a flight to integrity. The importance of incentivizing people to do the right thing was stressed and a top-down approach was suggested.

Real Estate for Corporate Counsel

Real Estate for Corporate Counsel was led by Thomas D. Kearns, Esq. The session provided a good overview and important information for corporate counsel dealing with real estate issues. Some of the topics included: leasing; acquiring, managing and financing real estate; environmental issues; construction contracts; and green trends.

Creating an In-House Diversity Program

Dennis P. Duffy, Esq., discussed Creating an In-House Diversity Program. He said that employers are increasingly adopting voluntary diversity programs. Legal considerations must be taken into account when designing programs. The importance of avoiding "unnecessarily trammeling" white/male employees was addressed.

Final Thoughts

This year's Second Corporate Counsel Institute was a strong follow-through to the First Corporate Counsel Institute held in 2005. Attendance nearly doubled at the larger venue. The Third Corporate Counsel Institute is planned for 2009. The Corporate Counsel Section and the New York State Bar Association express our appreciation to our Platinum Sponsor, FTI Consulting.

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NYSBA Corporate Counsel Section Diversity Internship Program

On Tuesday July 24 the Corporate Counsel Section's Diversity Internship Committee hosted a festive reception at the Manhattan offices of BMI in honor of the three law student interns sponsored by the Section under the auspices of its Kenneth G. Standard Internship Program. The internship program focuses on identifying and supporting in-house internship opportunities for law students from a diverse range of backgrounds. The program is named in honor of the former NYSBA President and his lifetime commitment to initiatives aimed at increasing diversity in the legal profession.

[Photograph by Brad Barket]

Summer '06 and '07 Interns with Ken Standard, center

Over the past year under the leadership of Steve Nachimson, Executive Committee Chair, Internship Committee members Mitch Borger, Fawn Horvath, Gary Roth, David Rothenberg, Howard Shafer, Allison Tomlinson and Chair Barbara Levi have worked closely with law school Career Offices and corporate sponsors to make the interns' summer work experiences as meaningful as possible.

Upstate and downstate were both represented by this year's class of interns and host companies. Albany Law School student Aurelia Lui was selected to work at upstate Oneida's in-house Legal Department; Cardozo Law School's Richard Kim interned at the McGraw-Hill Law Department; and St. John's University School of Law sent Marjan Quadir to Goldman Sachs' in-house Legal and Compliance Department. Goldman Sachs and McGraw-Hill have each sponsored Kenneth G. Standard interns for two years in a row, and along with Oneida are to be commended for their generous support of the diversity internship program, and the superb summer experiences they have provided to the interns.

[Photograph by Brad Barket]

Ken Standard and the Diversity Internship Committee

This is the second year the program has placed law students from a diverse range of backgrounds at in-house legal departments. Based upon the feedback received from the interns and their corporate hosts, the Kenneth G. Standard Diversity Internship Program is establishing itself as a strong force in encouraging and supporting the growth of diversity in the legal profession. The Corporate Counsel Section hopes to continue to expand its diversity internship program, and make it available on a broader basis going forward. This fall we will begin work on the recruitment of corporate hosts for the Summer 2008 program. If you wish to work on the Diversity Internship Committee or you know of a company which may be interested in sponsoring an intern, please contact Barbara Levi at (201) 894-2766.

Book Review

Corporate Legal Departments, 3d Edition

Carole L. Basri & Irving Kagan

Reviewed by Janice Handler

CliffsNotes for Corporate Counsel

When I first went in-house as a staff lawyer for a New Jersey food company, the first task I was assigned was to attend a trade association meeting in Washington, D.C. "We always have lawyers present when we meet with competitors," the General Counsel explained to me. Sounded good to me—a day in D.C. and a free lunch. But why was I there and what was I looking for?

If I had had this treatise, I would have known. The excellent overview on antitrust law would have alerted me to the sensitivities of situations where competitors get together—and I would have been alerted to hit the **"Stop**" button if any discussions of prices (other than the cost of lunch) came up.

In fact, there were many things I could have handled better if I had this book—how to handle a toxic spill, how to negotiate a sales office lease, and how to calculate customs duties. (Not to mention how to get a working visa for an expatriate's nanny—probably the most important thing a corporate lawyer will ever be asked to do.)

My students—of Corporate Counseling Fundamentals at Fordham Law School—now have a resource available to them when these and a hundred other novel, complex, "not-taught-in-law-school" issues come up in their first corporate job. For *Corporate Legal Departments*, which I use as my text, is a veritable CliffsNotes for the in-house corporate lawyer, covering a smorgasbord of issues, both substantive and procedural, which corporate counsel must deal with every day.

Corporate Legal Departments is a two-volume treatise. Volume I deals with the many issues unique to corporate counsel and ubiquitous to all corporate counsel. Issues such as law department organization and resources, internal investigations, crisis management, records retention, attorney-client privilege in a corporate setting, litigation management, and retention and utilization of outside counsel are dealt with in a practical and readable way. The various chapters are often supplemented by forms, procedures, and checklists which can be adapted for individual needs. The checklists for responding to search warrants and conducting internal investigations and the Model Records Retention Plan are particularly timely and useful in the post–Sarbanes-Oxley corporate environment.

Volume II contains appendices, each covering a substantive area of law written by experts in their fields. The quality of Volume II is spottier than that of Volume I. Some of the chapters—"Antitrust," "Securities Law," "Environmental Law," "Immigration," for example—are comprehensive overviews of their subjects. Other chapters, such as on employment law, are topical updates that are comprehensible only to those already knowledgeable about the subject. There are curious duplications (advertising law, for example, is dealt with in two separate chapters) and omissions. A chapter on bankruptcy would surely be useful in these financially turbulent times, and some mention of the many alphabet soup agencies that regulate the sale of consumer goods and food, drugs, and cosmetics would also be useful. And while the chapters on "Foreign Corrupt Practices Act," "Export Control Laws," and "Customs Law" are good introductions to international trade, our increasing internationalized corporate practices probably require a chapter on EC regulation and antitrust policies as well. But these are nits—the scope of this treatise is so broad and the readership so diverse that there will always be quibbles about what to include. Overall, the editors have done a good job.

Despite these quibbles, this treatise is a valuable resource for the corporate lawyer. It will be most useful to those at the top and bottom of the ladder—the staff attorney stepping into the General Counsel role who is a novice to management issues and the newest addition to a corporate legal department who has heretofore thought being a lawyer was about reading cases. The mid-level lawyer, happily ensconced in a twenty-lawyer in-house group, focusing on securities law will not find the breadth of this treatise as useful. But any corporate lawyer will find these volumes a valuable addition to the corporate law library—and for the corporate newcomer handling a novel issue of law for the first time the brief but comprehensive overviews of unfamiliar areas of law are veritable godsends.

Janice Handler is the former General Counsel of Elizabeth Arden and currently teaches Corporate Counseling at Fordham Law School. She is a member of the Executive Committee of the Corporate Counsel Section of the NYSBA and has written for the *ACC Docket, New York Law Journal,* and *ABA Journal.*

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Submission of Articles

Inside welcomes the submission of articles of timely interest to members of the Section. Articles should be submitted in electronic document format (pdfs are NOT acceptable), along with biographical information. Please submit articles to:

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