Title: **Pitfalls and Potholes for In House Counsel: Spotting and Avoiding Ethical Problems Presented by ACC's Small Law Departments Committee, sponsored by Lexis-Nexis and Meritas**

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ASSOCIATION OF CORPORATE COUNSEL

Moderator: Gary Sesser
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Operator: Gary, please begin.

Gary Sesser: Good afternoon, and welcome to our Webcast on pitfalls and potholes for in-house counsel, spotting and avoiding ethical problems. My name is Gary Sesser and I'm a litigation partner with Carter, Ledyard, Milburn in New York City. I am chairman of our firm's ethics committee, and part of my practice deals with issues of legal compliance and professional responsibility.

Joining me for our panel discussion today are two in-house lawyers, Deanne Tully and (Todd Silverman) as well as Maurice Byrd of Lexis-Nexis. Lexis-Nexis is one of our co sponsors along with the Meritas Law Firm Network and the small law department committee of the Association of Corporate Counsel. Deanne, could you tell us a little bit about your background?

Deanne Tully: Sure. Thanks, Gary. Hello, my name is Deanne Tully. I'm General Counsel and Secretary of Tier Technologies Inc. We're a publicly traded company. We do about $170 million a year in revenue. We do primarily packaged software, or systems integration and electronic

transaction payments. And we are a small law firm, we have three attorneys and a couple of support staff. (Todd).

(Todd Silverman): Good afternoon, my name is (Todd Silverman). I am the sole attorney for Express Carriers which is a privately held company. We are transportation trucking. We operate in the U.S., Canada and Mexico. And I am a true corporate generalist. I work in all areas of the law, I'm also involved in business. And the areas that I delve into are sometimes areas that I have never heard of until my boss puts the new plate on my desk. Maurice.

Maurice Byrd: Yes, good afternoon, my name is Maurice Byrd. And I am a legal consultant, corporate counsel consultant specifically with the Lexis-Nexis consulting group. And I consult with Lexis-Nexis corporate counsel and legal departments throughout the country. In my role, I'm based in Atlanta, Georgia. Gary.

Gary Sesser: Yes. A couple of housekeeping matters, before we begin. We'll be going through a number of hypothetical scenarios which raise ethics issues commonly faced by in-house counsel. listeners to our Web cast, have the opportunity to submit questions, by e-mail, which we'll do our best to address, either as we go along, or more likely at the end of the program. And I think you'll see a box at the right side of your screen in the lower right, where you can time in questions and hit send.

If we do not get to your question, we'll do our best to respond to it by e-mail, perhaps after the Webcast. As a disclaimer, please understand, we're not giving legal advice in the context of an attorney client relationship, and our comments, obviously should not be taken as such. We're really just doing our best to offer our useful observations based on our own experiences and training.

Now we'll be referring to the model rules of professional conduct throughout our discussion. And as you may know, most states have adopted some variation of the model rules. My state, which is in New York has not adopted the model rules but most states have. But there are variations from state to state, and they can be quite significant, particularly on crucial issues. And also choice of law issues are not issue in the context of ethics, and hopefully Maurice of Lexis-Nexis will be able to help us identify sources of applicable law in that area.

There is a Webcast evaluation form, which is also on the right side of your screen, and we would encourage everybody to complete that form after the Webcast. There are also our resources online, we have a discussion paper which basically goes through the hypotheticals and our comments on it is the paper with some authorities and also PowerPoint slides.

So with that introduction, why don't we start discussing the first hypothetical, (Todd)?

(Todd Silverman): Thanks, Gary. And before I begin, let me also say that anybody who's interested in becoming more involved with the small law department committee, the committee does have a Web page on – at ACC.com, so you can find out who the officers are and get involved that way.

It occurred to me that perhaps I should start by telling you all a brief story that's kind of about knowing the right thing to do, which would seem to be ethics related. And since we just had Mother's Day, it's a Mother's Day story. A man asked his wife what she'd like for Mother's Day, and she says I'd love to be six again. On the morning of Mother's Day, he rose early, got up made her a nice big bowl of Lucky Charms, and then took her off to the local theme park. What a day. He put her on every ride in the park. The death slide, the wall of fear, the screaming monster roller coaster. Five hours later she staggered out of the theme park, her head was reeling and her stomach felt upside down.

Right away he took her to McDonald's where the loving husband ordered her a happy meal with extra fries and refreshing chocolate shake. Then it was off to a movie, the latest Star Wars epic, a hot dog, popcorn, soda pop and her favorite candy, M&Ms, what an adventure.

Finally, she wobbled home with her husband and collapsed into bed exhausted. He leaned over his precious wife with a big smile and lovingly asked, "Well dear, what was it like being six again?" Her eyes slowly opened and her expression suddenly changed, "I mean my dress size you jerk".

So it's all about knowing to do the right thing. To kind of paint a picture for you, Deanne and I are at Starbucks and we're meeting our good friend, Gary and Maurice. We're ordering a double chocolate super size latte with cream and sprinkles and however else you order those. And being the frugal in-house attorneys we're looking for free advice from our good friends.

As I stated, I'm the sole in-house attorney at my company and I do it all, negotiating contracts, included. I've been told that we're providing services to Big Corp, and I'm to negotiate the terms of the contract with their contract manager as soon as possible. Their contract manager has asked me to set up a negotiating session with her today. And I know that they have an extensive legal department as I've worked with them before. She's my contact, and we need to get the deal done immediately. The question I've got is can I negotiate with her knowing that they've got this extensive legal department? And if I can't, with whom do I need to speak, Gary?

Gary Sesser: Well this brings into play the –what's called the no contact rule, model rule 4.2, which hopefully you can now see up on the screen. And basically what it says is that in representing a client, the lawyer can't communicate about the subject matter of the representation with a person that lawyer knows to be represented by another lawyer in the matter, unless the lawyer has consent of the other lawyer or is authorized to do so by law, or a court order.

So this applies negotiations as well as litigated matters. And it applies to in-house counsel as well as outside counsel. So, you know, the first question which is raised is, do you know that Big Corp is represented by counsel. They do have an extensive legal department, but that doesn't necessarily mean that they're represented by counsel in the matter. In the hypothetical the contact is initiated from Big Corp, that makes no difference, whether you initiate the contact, or whether the other party initiates the contact. It makes no difference for the rule. And they've attached the template of the contract, which, you know, more then likely is something that's been reviewed by their legal department.

So there's a lot of reasons to think that this isn't a problem, but I think, as a technical matter, you should find out whether they're represented by counsel, and asking the question is the easiest way to do it. And if they say, well yes, I am working with my legal department, I would ask them to have someone from the legal department send you an e-mail and say it's OK to negotiate with them.

Now, you know, the rule says in the matter, you certainly can talk to unrepresented persons about baseball or the weather unless the case is about baseball or the weather. But here, you know, you're clearly talking to a non lawyer about, you know, a subject, a legal subject.

(Todd Silverman): Gary, someone from the – would you say someone from the legal team can wave the privilege or we should see if they could be on the call?

Gary Sesser: I don't think they have to be o the call because model rule 4.2 says if you have consent, you can do it. So I think really, you know, the – just if they want the contract manager to handle the negotiations without having an in-house lawyer on the call, they can do that. And they just, you know, zip you a quick e-mail saying we consent. And I think that's really the end of the story as far as model rule 4.2 is concerned.

Deanne Tully: Gary does it need to be in writing? Because I think these things happen all of the time, where someone just says no, I'm the person you need to talk to.

Gary Sesser: Well that's a good question. I mean I'd rather have it in writing. And for conflict waivers and informed consent with conflicts, those do have to be in writing under the model and in many states, not New York by the way. For consent to rule 4.2 it doesn't say in writing. And if the rule doesn't say in writing, then if you get an oral consent, that may do the trick.

Deanne Tully: And that oral consent can come from the contract manager?

Gary Sesser: I don't think so. I think it ought to come from the legal department.

Maurice Byrd: Gary, this is Maurice. We just got an interesting question from the participants, as to what if we new that all of the contracts were approved by the in-house lawyer before it was signed by Big Corp?

Gary Sesser: Look, I think that is a very likely scenario. And there's all of the reason to believe that, you know, if you do have a direct negotiation with the contract manager, nothing bad is going to happen to you, because the reason for the rule is to prevent over reaching, the rule goes back to the 19th, century. It's to prevent over reaching by lawyers dealing with non lawyers and eliciting confidential information.

So do I think it's a big problem, if you, you know, are you likely to get into serious trouble, the answer is no, but even if it's approved after the fact by in-house counsel, I'd still get the consent, because technically the rule does require it if you're dealing with an unrepresented – or a party who is represented in the matter.

(Todd Silverman): Well speaking of that, and overreaching by lawyers, I'm going to kind of give you a two part question, the first part is what if I'm negotiating with a company that does not have anybody in house, but I absolutely know that they hire law firms all of the time to do the work for them, that's part one.

Part two is do I need to disclose to whomever I'm speaking to that I'm an attorney?

Gary Sesser: Right. Well as to the first question, the fact that they use lawyers all of the time, does not necessarily mean that they're using lawyers for this particular assignment. And so the question is, do you know whether they're represented in the matter? And I think, you know, practically speaking, it is a very slight burden to ask the question, are you represented by counsel in this matter? And if they say no, then, you know, you can talk to that person?

Should you disclose that you're a lawyer, I think, yes, the answer is yes. I think it's really, probably deceptive not to disclose that you're a lawyer. You say you're a lawyer, who you're representing. And ask whether they were represented by counsel. I think that's the way to handle it.

(Todd Silverman): OK. As a practical note, whether I'm dealing with claims or dealing with sophisticated or unsophisticated companies, I always do tell people that I'm an attorney. And for my in-house documents that I want other parties to sign, I routinely have an acknowledgment that says they've read the document, they understand the document, and they've been given the opportunity to discuss it with an attorney. Deanne, how do you handle those things?

Deanne Tully: Do you put that in your contracts, your basic run of the mill contracts, (Todd)?

(Todd Silverman): We have a basic contract that we use with contractors. And I have an appendix to the contract, so that it's more obvious that they're acknowledging those items.

Deanne Tully: We put that in settlement agreements, release agreements, things of that nature. But I have to say that that's not in our standard contracts. And we typically, we have both in-house counsel who negotiate contracts, and also people with the title contract manager, who deal with contracts extensively. And we don't have that representation in there, in the body of the contract, but that's something to think about.

(Todd Silverman): And for those of you that have – that are Big Corp and you're not Little Guy, Inc., I know that many of you have in your master contracts, because being the little guy I'm the one who reviews them here, one of the last provisions frequently says that we acknowledge we're a sophisticated business. And we have consulted with our attorney before signing your contract.

Gary Sesser: Well I think that's – you know, I think that's certainly useful to have. I don't think it's – it's not ethically mandated, but it obviously calls attention to the fact that they had the opportunity to consult with counsel. My question whether if they're not sophisticated signing something that says they're sophisticated makes them so. But, you know, no harm trying.

(Todd Silverman): Deanne, what kind of things do you generally deal with there at your company, in your role?

Deanne Tully: Well we deal with – we have three generalists on staff. And some of the things that we deal with are the problems that we run into, I think a lot, and moving on to the next topic, would be the attorney client privilege issue. And there's also sorts of permutations of this, which we'll discuss.

But for example, as secretary of the company and I think a lot of us who are either the single – the single attorney there also serving that function, when you're, for example, at a board of directors meeting, and you take extensive notes on everything that's presented, and then you

draw up your minutes and like a lot of board of directors, we cover a lot of topics very quickly. We don't always segregate everything that may be litigation related, or relating to an investigation or something to the end. They may be interspersed throughout the minutes, certainly my notes that I take.

So one of the questions that I have for Gary and Maurice is when you're putting together your minutes, what – how can you segregate or how do you treat those parts of the minutes that you want the attorney client privilege to apply to, and as opposed to your general run of the mill audit committee matters and other issues?

Gary Sesser: Well that's really kind of a practical question because if the discussion is for the purposes of obtaining legal advice and it's that kind of discussion, it's going to – it should be privileged. So the question you're really asking is, you know, how do I segregate it in such a way that we will be sure if we're involved in a litigation that we'll be able to appropriately claim the privilege.

And, you know, there, you can do a couple of things. You can put privilege discussion above the particular board minute that you're referring to. You can put the privileged board minutes on a separate sheet or separate document. You know those are sort of practical things that you can do to make sure that, you know, the privilege is preserved. But as to whether it exists or not, it exists or not depending upon, you know, whether you meet the requirements for privilege which are essentially a communication made in confidence for the purposes of obtaining legal advice to service, and between privileged persons.

Deanne Tully: So at one meeting I can wear two hats?

Gary Sesser: And I would imagine you do wear two hats at one meeting. But it's – it is important to try to separate out the discussion to the extent that you can. I mean the rule is that business advice is not privileged. Legal advice is. Frequently, you know, the advice is going to be mixed between

legal and business. But if you can argue that it's predominantly legal then, you know, the privilege should apply.

Deanne Tully: And what about my notes, if my notes are pretty extensive, are those going to – and even if it's notes on routine mundane matters, business issues, are those still going to be protected by the attorney client privilege?

Gary Sesser: Well not if they're about business matters. You know, if you're wearing your business hat, and you're taking notes on business matters, then those notes, I don't think any privilege would attach to those. But I think in the hypothetical we were dealing with, we were talking about an ongoing government investigation. And we were talking about resolving pending litigation. Notes that you take there are clearly going to be covered by work product, because it's in anticipation of litigation. There is, in fact, pending litigation and your notes are going to reflect your mental impressions as a lawyer. So I think that those things would certainly be covered by work product. And probably also, to the extent they reflect information that you've gotten from board members or that you're giving to board members, for the purpose of obtaining legal advice, probably covered by attorney client privilege as well.

Deanne Tully: Well let me throw out one other question to you. Auditors be a publicly traded company or privately held, everybody at some point, has their auditors come in and do their work. They always want to see copies of the board minutes on everything. If I give them copies of the minutes including the attorney client privilege material have I waived that privilege?

Gary Sesser: Well that's a great question. You know, in one sense of course, the auditors do need to see some commentary on pending litigation and in fact, you know, that sort of stuff appears in footnotes of annual reports. You know, when something is going to appear in an annual report, it's a little hard to say that that information is privileged.

I think that you have to be a little bit cautious about, you know, precisely what you give the auditors, because the question is are they there, as part of the enterprise of obtaining or securing legal advice? And I think that's – that might not be an easy argument to make.

Deanne Tully: (Todd), did I cut you off? Did you have a question there?

(Todd Silverman): You did not.

Deanne Tully: OK. All right. Maurice?

Maurice Byrd: Yes, I'll add to what Gary said, Deanne. And in terms of some background on the issue, I would refer you to the (in raid Dow's Corning) case, as well as the (Strogo versus Bee Associates) case. And in both of those cases, which were fairly recent cases, they clearly outlined in the decisions the minutes, notes, financial documents and other related documents that fall within the attorney client protections bucket, or the work products, or the attorney work product buckets. So that's (Dow Corning), and (Strogo) so I would take a look at that.

I would also say as a way of comment, that at a time where there's been an evolution, corporate investigations by the SEC and issues of the discoverability of electronic documents, many are rising out of the (Zubalaki) line of cases. I think it's important that counsel makes a concerted effort to understand the network systems, the record retention policies and other matters surrounding electronic documents to protect those documents from being unintentionally waved by (cementing) them in a request.

The other thing I would say that is important and I think Gary mentioned this as well to separate the documents that are clearly business – involving business matters from those that are, contain legal information or legal advice, from an electronic standpoint, so that those are not

unintentionally submitted, thus waiving the attorney client privilege as well. So those would be my comments on this – on that Deanne.

Deanne Tully: That's an interesting point that you bring up there Maurice, because I think most of us when we save our electronic documents, particularly myself with e-mails, you know, I save them by subjects. And I don't often segregate, so what you're saying is when you don't segregate them like that, then you're stuck going through each and every e-mail in a particular subject to determine what is and isn't privileged.

Gary Sesser: Which is a nightmare.

Maurice Byrd: That could be a distinct nightmare, that's for sure. But again, those line of cases that I shared with you, clearly indicate that it is the responsibility of counsel to ensure in the protection of confidential information that could fall within the attorney client privilege that those documents are segregated.

Deanne Tully: OK. Well as (Todd) and I sit here sipping our caffeinated drinks at three o'clock in the afternoon, you know, here's something I think that we can both relate to, and probably no matter how big your law firm is. So you're not on a particular – in a particular meeting or anything like that, but just on your day to day work, we are very much generalists. You know, we cover legal stuff, we cover business stuff. In my department, we get sent everything where they don't know where else to send it, then just give it to legal and let them figure out what to do with it.

So how do you determine, as you're handling all of these things, wearing many hats, I think, how do you determine what's going to be privileged and what's not? When you say business advice and legal advice, I think we all know what legal advice is. Can you help us, you know, is there a litmus test or some sort of criteria that we could use to help us determine what's truly privileged and should be protected. We need to take the steps that you've recommended and what isn't?

Gary Sesser: Well the test is, really is the communication for the purpose giving or obtaining legal advice. And that is essentially, you know, it's not a bright line. It's kind of an elastic concept. And I think there's a great deal of background information that goes to in-house counsel which is pretty important in assisting in formulating legal advice.

You know, as a practical matter, when you – if you get to the point of litigation, communications between in-house counsel and employees, the lawyers in litigation will always claim privilege for that. And most of the time that's not challenged. And the reason is that there's basically an incentive to claim privilege in borderline cases. And that incentive is that you do not want to produce something that is privileged because of the risk, not only that that particular communication or document gets produced, but that there could be what's called a subject matter waiver of the privilege, and then all communications relating to that subject matter might be produced.

On the other side, the downside of aggressively claiming privilege and litigation is relatively slight. In most cases, a communication between in-house and a corporate employee is not going to be challenged, if you list it on a privilege log. And if the other side wants to press the point, you have a couple of opportunities to reconsider your position. As always, meet and confer obligation and discovery to try to work out disputes. And if you don't agree at that point, then the other side makes a motion to compel and the worst case scenario is you wind up producing it.

So the incentive really is to be somewhat aggressive in claming attorney client privilege, even when you're wearing multiple hats.

(Todd Silverman): And Deanne, in terms of what I do, I actually had stamps made up, one that says attorney client privilege, and the other says attorney work product. And when applicable, I'll use one or both of them on documents that I'm using. Also, I read, and I wish I had a site, but I'm

afraid I don't, but I read something, somewhere, I don't know, maybe a year, a year-and-a-half ago, that where a court ordered all e-mails that were sent out by the in-house attorney to be non privileged, and not work product because every e-mail that attorney sent had the little attorney client privilege phrase at the bottom like we all have. And the court ordered that if that attorney had really wanted those things to be privileged, what he would have done would be to delete that language from e-mails that are not privileged communication. So I routinely now, delete that footer, every time I send an e-mail, where it is not work product, or not privileged, so that if that issue every came up for me, I could show that actually I only include that language when it's applicable.

Maurice Byrd: Yes, I'm aware of – I don't have a site either, but there was a case, a federal district court case that you're referring to where the judge allowed everything to come in, because in the example you gave and the facts may be slightly different. The attorney attempted to list everything as attorney client privilege in his e-mail and clearly it all was not.

So the judge said we're not going to spend time, you know, trying to sever it at this point. You didn't do the necessary due diligence to separate that appropriately, so we're going to let it all in. And so I wish I had the site to give you, but your point is well taken.

Gary Sesser: I would respectfully disagree with that decision.

Maurice Byrd: Yes, so would I.

Gary Sesser: As a litigator. I think the communication is either privileged or not, and whether it's labeled one thing or another is really not dispositive. It sound to me like it was the judge was annoyed that there was an overarching claim of privilege for everything and was being, you know, punitive in the decision. But I think the communication kind of stands and falls on its own.

Now having said that, when you do label something attorney client privilege that is privileged it does show an intent that it be privileged and that it was a communication that was made in confidence between privileged parties. So I'm not saying that the labeling has no effect, but it's dispositive.

(Todd Silverman): In the interest of time, Gary, being a law firm guy, I know you've got a golf game pretty soon, and I'm going to combine my next two questions. And for those folks in the tables around us that are listening as we sip our coffees, I heard a question in the background about whether the slides will be available later for viewing and the answer is yes. They'll be online along with our paper for you to peruse at your convenience.

But I – when I started with my company I shared an office with three other people. And the principals just loved walking up to my desk with the other people in the room and talk to me about things, and ask me questions, some of which would have had a privilege associated with it. They also liked to discuss with me, whether there's other people around or not, their personal thoughts about strategies, dividends, what they think about certain employees. And they think just because they're talking to the company lawyer, that everything they say is therefore privileged. What's your take on that?

Gary Sesser: Well I think there are really two parts to your question. One is business versus legal advice. And again, I think that if it's arguable that the information relates to material that could help you formulate legal advice, then I would tend to aggressively claim privilege for that – you know, for those sorts of communications.

The issue about having other employees around are one of the requirements for the privilege is that the communication be made in confidence between privileged persons. Now you are a privileged person because you are an in-house lawyer, you're the lawyer. Your client is the corporation. The corporation can only act through its constituents who are employees by and

large. So you can certainly have privileged communications with a number of employees around and in the room.

The question is whether those employees have anything to do with the topic being discussed and legal advice? And, you know, if they do, I think the privilege is appropriately applicable. And if they don't, then they would be considered as third parties an disclosure or privileged communication of third parties waves the privilege. So for example, you know, if you're discussing corporate strategy and someone from the mail room is there, if that mail room person is deposed, or in fact, if anyone is deposed and it's determined that the mail room person is there, and had no role with respect to formulation of legal advice or request for legal advice and that could be a waiver.

Also, broad dissemination within the corporation of a communication, kind of indicates to the court that it's more in the nature of business of business communication, rather than a legal communication.

(Todd Silverman): Great, thanks. I just got a message, also aside from our pretend copy here, that most of the material is available to all of you that are listening in a downloadable format by clicking on the links in the links box, at the right of the screen. So if you're wanting to go through the slides in a different order or look back at something we've all ready passed, go to the links box, the right of the screen and click on the links there.

Deanne, you and I were talking earlier, and you had some issues about, you know, gee, who really is the client? And I just knew that Gary and Maurice would be able to help you with that.

Deanne Tully: Well I think you're right (Todd). We've got to take advantage of this free advice here, even with Gary's caveat.

You know, what – and the next scenario is really just taken from the headlines if anybody reads the Wall Street Journal, this is going to sound familiar. So what happens if your company is doing an internal investigation, say it's on potential accounting fraud, and because that's a serious issue, the board has hired its own independent counsel to conduct that – those interviews of a bunch of current as well as former employees. And the company needs to be represented in the course of these interviews and the course of this investigation. And as in-house counsel, they ask you to go ahead, and serve in that role.

So you bring in, Gary and Maurice, let's say you bring in a current employee and the counsel for the – the independent counsel for the board starts asking questions. What are my obligations, if any, as the in-house counsel for the company in that situation?

Gary Sesser: OK. I should mention at the outset that because I have twins who are graduating from college on Sunday I can now afford to give free legal advice.

Deanne Tully: OK.

Gary Sesser: In the context of that investigation, I think you, in an interview I think you certainly have to, and whether it is you, or whether it is outside counsel is not really material, although I think, you know, these sorts of introductory remarks are probably best made by in-house counsel, whom the employees presumably know. But you have to tell the employees something about the nature of the investigation. And how much detail you give is really going to depend on, you know, sort of confidentiality concerns.

But the really important point is to let them know that the interview is privileged. That they should not discuss the interview with others, outside the room. And that – but it's the corporation, it's the company that holds the privilege. And because the company holds the privilege, the company could decide down the road that to waive the privilege.

You also have to make it clear to the employees that outside counsel is representing the company and not representing them individually and that – and the same goes for you as in-house counsel. Your client is the company and you're not representing them individually. So those things really do need to be said when you're doing one of these investigations.

Deanne Tully: Well a couple of questions, do I have to say the same thing whether it's a current or former employee?

Gary Sesser: I think you – well with a former employee, the privilege issue is a little dicier. I mean with the discussion with a current employee, there clearly is a privilege, because you're communicating with a constituent of your client who is a corporation.

When you're communicating with a former employee, I don't know that the entire interview is necessarily privileged because the former employee is no longer a corporate constituent. I think there is an argument that when you're talking to the former employee about matters that occurred during the period of employment, I think there's an argument. I think there are some cases out there that suggests that that communication may be privileged but, you know, when you're talking about other things, including, you know, your strategy, what the case is about, what your strategy is, I don't think you can assume that that's privileged. Maurice, I think you had some --

Maurice Byrd: -- some comments on that.

Gary Sesser: Yes.

Maurice Byrd: Yes. The one point that you just made was made – was focused on in a case involving the United States versus Merck Medco. And basically the decision or the opinion indicated that when you're interviewing a former employee that the communications to make sure that it's

privileged, had to concern knowledge that they had obtained during – or conduct that they had been involved in -- during the course of their former employee's employment. In other words, like you said, their relationship with the company previously.

And number two, the court said that it had to relate to communications which were, of themselves, privileged and occurred during the course of that employment relationship. So that's a fairly… I think the case is about a year-and-a-half old, but it's worth reviewing in support of what you too have said, Gary.

Gary Sesser: Yes, I think one other important point is that communications that the former employee had with counsel, in-house counsel or even outside counsel during the period of employment remained privileged. And in fact, it would be unethical for the advisory to attempt to elicit that information from the former employee. Now an advisory may be able to contact the former employee, that's a whole other area, but typically former employees can be contacted.

But they cannot be asked, or it would be unethical to ask them about communicate confidential communications they had with counsel during the period when they were employed.

Deanne Tully: Well let me ask another question, another good question that's popped up on the screen here, actually two questions here. You know, when do you notify the employees about who you represent? When do you make this statement? Do you have to make it up front? Or can you wait to sort of see how the testimony is going?

Gary Sesser: I would absolutely make it up front.

Deanne Tully: OK. What if you forget? Or what if you didn't know, and you just didn't give that kind of acknowledgment at all during the interview, what's the consequence?

Gary Sesser: Well I mean the potential consequence is that the employee could say that they reasonably believe that counsel – in-house counsel or outside counsel -- was representing them personally. And then, if it turns out that the interest of the corporation and that employee diverge, which, you know, can certainly be the case, if the employee was involved in wrong doing, then you could be in a conflict situation. Your outside counsel might – could conceivably get disqualified. You know, if the court finds that the employee had a reasonable belief that the outside counsel was representing them, then you would be in a conflict situation as well.

So it's really kind of a can of worms. So it's certainly best to explain up front. And, you know, it's understandable with corporate employees who deal with in-house counsel all of the time, you know, I think they are not particularly attune to the entity theory of whom in-house counsel is representing. I mean these are, you know, relatively sophisticated legal concepts. And they can have a belief that you're looking out for their best interest.

Deanne Tully: Well what – this may not be exactly applicable to who's the client, but it certainly comes up all of the time so you sit there and the independent counsel says, you know, I represent the board of directors, and you sit there and say well I represent the company. And then the employee looks around and says OK, who represents me? Do I need to go get a lawyer?

Gary Sesser: Right. And that's a tough one, because there are kind of competing considerations there. One – you know, one consideration is this is an unrepresented party. And as you'll see from model rule 4.3, you're really not supposed to give legal advice to an unrepresented party other than the advice to get counsel.

On the other hand, it may not be in the best interest of your client, the corporation that all of the employees, you know, go out and get their own counsel because that may certainly impede the investigation. So the answer to the question – to a question as to which there is no good answer, is you certainly can't say no, you should not get counsel. You can say, you know, I can't advise

you about that. Or you perhaps can say it's too early for me to tell and I can't really advise you about that.

But you certainly cannot definitively say no. And it would be foolhardy to say no, particularly at the beginning of an interview, when you don't know, you know, what the client may have done, and so you couldn't sort of legitimately assess the need for counsel anyway. You know, and also when the issue of do I need separate counsel comes up, it's going to – you know, the issue of who's going to pay for separate counsel will come up as well, will the company pay? And these are the kinds of issues that need to be talked through and thought through before you start the investigation. How are you going to deal with those issues?

(Todd Silverman): Gary, before getting to that next question, I'm going to combine my next couple of questions in the interest of time. I had an interesting situation early in my career, where my employer asked me to do something and I told them that there was a conflict and that we needed to hire somebody else to handle that particular matter. And he said to me, what do I have you here for then? I hired you. So the question I've got is, when one of my owners -- remember, I'm a privately held company -- when they come and ask me to do something personal for them -- maybe a will, maybe they want to form, you know, their own company, you know, my own company LLC and want me to help them assist with the purchase of assets that they then want to lease back to little guy for whom I'm the general counsel -- who am I really representing? And how do I handle it?

And frequently, after I do those types of things, they want me to sign one of those documents as an officer of the corporation because I'm also a Vice President of little guy.

Gary Sesser: Well that's a… You can be put in a tough spot. Basically under the model rules, you certainly – you know that you represent the company so there's no ambiguity there. When you're asked to represent in addition to the company, you know, an officer, director, employee,

shareholder, that's permissible under the model rules, you can certainly do that. But it's subject to the normal conflict of interest rules that are, you know, set forth in, I think it's model rule 1.7.

So in a situation where you're asked to do something and there's no conflict with the company, you're just asked to do something separate, you can do that. You may want to make sure you're competent to do it. You know, I think in our hypothetical we talk about drafting a will, which I certainly would not do for someone with substantial assets, unless I were an expert in the area. But, you know, assuming you're competent to do it, there's no conflict, and you have appropriate malpractice insurance that's going to cover it, that can be done.

Then the next question is, OK, what if there is a conflict or arguably a conflict between my representing the company and this other entity, and I think in the hypothetical we're talking about forming another entity and the other entity purchases assets that are leased to your company. Well, there you need consent, and you're not going to get consent from the interested principal of your company, you know, the person who asked you to do that. Consent from that person isn't going to do the trick. What you need is consent from an appropriate official of the company who is disinterested. In other words, someone who I would say is at least at the level of the person, of the interested person who asked you to do the work but is – but has no interest in the transaction. So that's who you have to get consent from?

(Todd Silverman): Do I have to get that in writing from them? Or can I just say, "Hey boss, the other boss asked me to do this, is it OK?"

Gary Sesser: I think under the model rules, you need it in writing because it's a consent to a conflict basically, and it needs to be informed consent. And informed consent requires disclosures. So you can't just say "Hey, is this OK?" You know, "So and so asked me to do this, is this OK?" You really have to go through "This is what I'm doing, this is how it could impact the company." You

know, you have to sort of make the disclosures and parade out the ways that could perhaps negatively impact the company in order for the consent to be informed.

So that's – and then the other thing that I think comes out in the hypothetical is whether the person who asked you to do this other work is appropriating a corporate opportunity. And there, you have to be – you know, you have to analyze that. There have been a number of cases, recently, where attorneys are sued for aiding and abetting a breach of fiduciary duty. And so, helping to document a transaction which, you know, constitutes the appropriation of a corporate opportunity could lead to some liability for the lawyer.

(Todd Silverman): Boy, that sounds bad, aiding and abetting. That almost sounds like the Sarbanes-Oxley report up the ladder type thing that come up.

Deanne Tully: Nothing is as bad as that.

Maurice Byrd: The only thing I would add to what Gary said in terms of reference is that you may want to take a look at the model rule 1.13 sub section G, for some clarity in regard to support of what Gary said in regard to conflicts.

Deanne Tully: Well, before I tackle our last topic of the day which is reporting at the ladder, I just want to respond to one of the questions out there, that the cases that Maurice has so helpfully pulled together and has cited throughout this presentation is available. And if you look at the links under ethical presentation authorities, you can go ahead and download it and Maurice has helpfully gathered all of these things together for us.

OK. Reporting at the ladder, yet another scenario taken from newspaper headlines. In this particular situation, there's umpteen variations on this theme, but let's stick to our scenario, our slide, on page 10, where this person is the assistant general counsel in a whopping law

department of two. And it's a software company where the assistant general counsel, he pretty much just does licensing, complex licensing agreements. But his one boss, the general counsel, handles other issues, but often times the assistant GC has got to pitch in as we all do.

So in the situation, and this is actually taken from a real case, the assistant general counsel is in the copy room and he overhears some people from the accounting department complaining about the CFO. And the CFO telling them to do such and such entries, and he keeps hearing hitting the numbers and some other things that kind of make him prick up his ears. And he finds a spreadsheet accidentally left in the copier by these two accounting folks, which he sort of follows, but not really, because he's a licensing attorney not a general counsel and somebody not too savvy in accounting.

So you have some overhead complaints, some spreadsheet that looks like it had something on it, that's a little bit fishy for lack of a better word, and a poor guy who does licensing, but has certainly read everything about Sarbanes-Oxley and reporting up the ladder and all of this stuff, in that scenario Gary and Maurice, what should you be doing or thinking about doing?

Gary Sesser: Well because it's a publicly traded company, I think the first thing you're going to look at is section 307 of Sarbanes-Oxley and be implementing regulations. And those apply to attorneys who practice before the SEC. And, you know, you might say hey I just do trademark licensing, I don't practice before the commission. But if you actually look at, you know, what constitutes practicing before the commission, it's an extremely broad standard.

And it might include, if one of the licenses is an exhibit to a filing that's made before the SEC, you may be deemed to be practicing before the SEC. So it's a broad standard, and I think in-house counsel, particularly because in addition to the licensing they're doing overflow work with the general counsel, should assume that they're going to be covered by Sarbanes-Oxley and particularly section 307.

Essentially what that provides in an extremely convoluted way, is that if you come across evidence of a material violation, you need to report that to the chief legal officer, and/or the CEO. And the question, you know, one of the questions raised in the hypothetical is, you know, have you found evidence of a material violation? It's basically overhearing gossip in the mail room and something is left in a copier.

The standard is a convoluted standard. But the bottom line is if it's more than a mere possibility, but it doesn't have to be more likely than not, then, you know, you have come across evidence of a material violation that needs to be reported. And I think that, you know, in the current corporate environment that we find ourselves in, you don't want to make a close call the right way. And it would seem, you know, easy enough for you to just bring this to the attention of the general counsel and have the general counsel look into it.

Deanne Tully: And once that assistant general counsel does that, are they done?

Gary Sesser: They're not done. Because they have to make sure that the chief legal office has either looked into it and has either determined that it's not a problem. Or if it is a problem, that the problem has been taken care of.

Deanne Tully: So how does he do that? Does he demand that his boss give him a weekly status update reports?

Gary Sesser: Well, I mean I think we can do it a little less formally than that, but, you know, you're under the gun. You're subject to the Sarbanes-Oxley. You didn't pass the law. And I think you can say to your general counsel, look I need to be in the loop on this and find out what's going on, because I have ongoing responsibilities, which you do. And if you're satisfied that, you know,

reasonable steps have been taken and it's been determined either that it's not a problem or that a problem has been addressed, that's the end of it.

However, you know, in a what I would think would be an unusual case, if you think that the chief legal officer has not done the job, then you've got, you know, further up the ladder to report to the audit committee, to perhaps the independent directors, or maybe even conceivably to the full board of directors.

(Todd Silverman): Boy, Deanne, you really ought to try the decaf. You know, you're all wound up worrying about this stuff. Luckily, you know, I'm in a privately held company I don't have to worry about this, Gary?

Gary Sesser: Well that's actually not true. If you have very similar reporting up the ladder obligations under model rule 1.13 which we will try to get up here. And it's 1.13B. If you know that certain action is going to be taken or has been taken, that is detrimental to the organization and it's likely to result in substantial injury, then you have to proceed as reasonably necessary in the best interest of the organization.

Now that could, you know, involve a few things. One is try to talk them out of it, you know, if there's a course of action, and you think it's illegal and will substantially injure the corporation I mean the first thing you want to do is talk them out of it. Or suggest that they get another legal opinion on it. You know, go to – get a legal opinion on outside counsel on the propriety of the conduct. But, you know, if even that does not dissuade the particular actor in question, then you've got to take that up the ladder too, including up to the highest authority that can act for the organization which in a corporate context is going to be the board of directors.

Deanne Tully: I don't know, (Todd), it sounds like maybe we need to leave Starbucks across the street, and go over to Joe's Bar and Grill. This is getting to be serious stuff here.

That brings us to four o'clock, and I don't know, Maurice, if you wanted to, there were a couple of other questions that we didn't get to.

Maurice Byrd: Yes, let's see – let me get those. Let's see if we can get to them. One of the questions that was raised in regard to the attorney client privilege and this comes up a lot but what is the status of the recognition of attorney client privilege in foreign courts.

Gary Sesser: Yes, that's an excellent question.

Maurice Byrd: Yes it is.

Gary Sesser: There's a big issue with the European Commission. And the issue is that they don't recognize communications from in-house counsel as being privileged. There was some thought that that stemmed from a case from the early 1980s. There was some thought that that was going to change in a recent case, but as far as I know it has not.

So if you are, you know, kind of a multinational company and you are sending privileged communications abroad, you should be aware of that risk, particularly if there are EC proceedings. You know, I think, ironically in the U.S., where we certainly do recognize attorney client privilege with in-house counsel, we'll recognize it for in-house counsel located in Europe, even if they won't recognize it, you know, for in-house counsel located either in Europe or the U.S.

And folks, I just want to remind everybody if you need to leave early too, please click on the links, and number one for the Webcast evaluation. Choose today's session. It's about half way down in the list, and just take a couple of minutes to give us your feedback. Thank you.

(Todd Silverman): Gary, there was another question a little earlier on also about attorney client privilege, what happens if the attorney is licensed in one state, and is giving advice to an employee in a different state either over the phone or by e-mail. Assume the attorney is not licensed in the state where the employee receiving the advice is located, but is licensed in the state where the attorney is resident, does that impact privilege? It sounds like this question kind of hits the multi jurisdictional practice as well.

Gary Sesser: Well I mean there are a couple of things there. You know, your ethical obligations are typically going to be governed by the jurisdiction in which you're admitted. And I know, you know, at least of one situation where in-house counsel in Connecticut, but was admitted to practice not in Connecticut but in New York. And when an issue came up as to the ethical propriety of certain conduct, a court held New York law applied because that was the jurisdiction where the lawyer was admitted. That's in terms of your ethical obligation.

Privilege is different. You know, privilege is going to be – may very well be governed by the jurisdiction where the litigation is. I mean they're going to – that's kind of a procedural issue. And, you know, if the litigation is in California, then, you know, chances are they're going to apply the attorney client privilege that's applicable in California. You might have an argument, if it's different that may be the place of incorporation should govern privilege. You know, but I think that- it's not going to be the place of admission that's going to control there. It's probably going to be the place where the litigation is located.

You know, and I would add to that, that within the last couple of years there were some decisions that an attorney in, for example, Indiana who was either – let's say they're located in Indiana and they're giving advice to somebody in California, that California said hey, you are giving advice, really in California, that's – you're engaging in the practice of the law of California. And if you're not licensed here, that's unauthorized practice of law.

Gary Sesser: Yes, California is probably the most aggressive state in terms of unauthorized practice. I think that most other states are – you know, understand the role of in-house counsel and understand that you're a necessity given advice to employees all over the country, if not all over the world. And I don't think there are many jurisdictions who are going to say that picking up the phone and talking to an employee in Kansas and giving legal advice is the unauthorized practice of law in Kansas. I think that would be extreme.

Maurice Byrd: I've got another question, guys. We've got a non – in a case involving a non lawyer employee of a corporation, can that person speak with the plaintiffs in litigation that is represented by an attorney?

Gary Sesser: That really depends on, you know, how high the employee is up in the corporate hierarchy. But I think that if it's an employee whose admission combine the corporation, who's statements can be deemed an admission of the company then he's a represented party. And cannot be contacted without the consent of the other side, which consent will not be given in all likelihood. But, you know, if it's a very low level employee who, you know, cannot find the company then there is some authority that you might be able to contact him.

Again, this is going to vary state by state. The one thing to bear in mind is that former employees are usually fair game. They can be contacted by the other side, again, unless they go and get their own counsel, which, you know, the corporation might want to consider getting counsel for former employees, if they think they're going to be contacted by the adversary.

Maurice Byrd: OK. Well Deanne, (Todd), and Gary I've enjoyed having coffee with you, but we have no other questions.

Gary Sesser: OK. That's terrific. I think the final point that I just to make sure that we mention in connection with the reporting up the ladder, both under Sarbanes-Oxley and under the ethics

rules is there can be an extreme case in which reporting outside of the company is either permitted or even potentially required under the rules. This is a very dicey proposition for in-house counsel who certainly should, you know, get legal advice before they do that. And there's significant variation from state to state, but you just, you know, need to bear that in mind. I think it's – it represents an extreme case which typically won't happen.

Having said that, I want to thank Deanne, (Todd), and Maurice for participating today in our discussion. I hope it was very useful for everyone listening in. And thank you for joining us.

Deanne Tully: Thank you.

(Todd Silverman): Thank you everybody.

Maurice Byrd: Thank you.

Deanne Tully: Bye-bye.

Gary Sesser: Bye-bye.

Maurice Byrd: Good-bye.

END