



905:Managing an International Law Department

Billie Munro Audia

Senior Corporate Counsel
Gap, Inc.

Timothy Donovan

Executive Vice President, General Counsel & Managing Director of International
Tenneco Automotive, Inc.

Brian Martin

Vice President, Legal
Sun Microsystems

M. Rush O'Keefe

Senior Vice President & General Counsel
Federal Express Corporation

Faculty Biographies

Billie Munro Audia

Billie Munro Audia is senior corporate counsel for Gap Inc. in San Francisco, where she manages complex commercial transactional matters for the \$14B international retail company.

Prior to this position, she was Europe and Middle East legal counsel for 3Com Corporation and associate general counsel (Europe and Middle East) for Openwave Systems Inc., where she built and managed the European legal department.

Ms. Audia frequently speaks at professional conferences, including the International Bar Association and ACCA (Europe), and has published several articles on international legal matters including "Planning a Successful Multi-Jurisdictional Reduction in Force in Europe," and "Recent Developments in European Competition Law," both in the *ACCA Docket*. As a volunteer lawyer for the California Lawyers for the Arts, she regularly delivers workshops on copyright law and licensing for artists.

Ms. Audia was awarded her BA, *cum laude*, from University of Massachusetts and her JD from University of Denver, College of Law.

Timothy Donovan

Timothy R. Donovan is the executive vice president, general counsel, and managing director of the international group at Tenneco Automotive Inc. With revenues of over \$3.5 billion, Tenneco is one of the world's leading manufacturers of automotive emissions control and ride control products and systems for both the original equipment market and the replacement market. In his capacity Mr. Donovan works regularly with the board of directors, chief executive officer, and other members of the company's senior management team. He offers legal counsel on a worldwide basis and regularly participates in all aspects of strategic planning for the company. He also serves as the company's corporate compliance officer and oversees the company's worldwide environmental, health, and safety program. As managing director of Tenneco's international group, Mr. Donovan has responsibility for all company operations in the Pacific Region and South America, as well as Tenneco's Japanese OE business worldwide.

Prior to joining Tenneco, he was a partner in the law firm of Jenner & Block. He most recently served as the chairman of Jenner & Block's corporate and securities department and as a member of its executive committee.

He currently serves as a director of John B. Sanfilippo & Son, Inc. and is a member of its compensation committee and is the chairman of its audit committee.

Brian Martin

Brian Michael Martin is the vice president and general counsel for Sun Microsystems, Inc.'s global sales organization, an organization responsible for \$6 billion in sales of Sun's computer hardware, software, and related services. Mr. Martin also serves as Sun's chief antitrust counsel. Mr. Martin is

an adjunct professor of law at the State University of New York at Buffalo, School of Law where he teaches courses on corporate counseling.

Prior to joining Sun, Mr. Martin served in private practice with the Pittsburgh law firms of Eckert, Seamens, Cherin and Mellott and Kirkpatrick and Lockhart. While with those firms, his practice focused upon antitrust and intellectual property litigation. Before his legal career, Mr. Martin served as an economist with the United States Department of Labor.

M. Rush O'Keefe

M. Rush O'Keefe is the senior vice president and general counsel of Federal Express Corporation, based at its international headquarters in Memphis. He is responsible for managing the worldwide legal affairs of FedEx Express, the largest cargo airline in the world. The FedEx Express legal department includes over 70 lawyers, with several groups based overseas at regional headquarters locations.

Mr. O'Keefe has held a variety of positions with Federal Express. His background includes leading the Federal Express labor and employment group, as well as extensive experience in regulatory matters related to the aviation industry. Prior to joining Federal Express, Mr. O'Keefe was a trial attorney with the National Labor Relations Board, and was engaged in private practice. He is active in numerous civic organizations.

Mr. O'Keefe graduated with an undergraduate degree from the University of Mississippi and his law degree from the University of Mississippi School of Law.

**SUMMARY OF TENNECO AUTOMOTIVE'S BUSINESS
AND
ITS GLOBAL PRESENCE**

History

Historically, Tenneco Automotive was operated as a division of Tenneco Inc., a large conglomerate involved in such diverse businesses as shipbuilding, natural gas transmission, chemicals, farm equipment and packaging with total revenues in the late 1980s of around \$14 billion. In a series of transactions throughout the 1990s, Tenneco separated these various businesses through sale, joint venture and spin-off transactions, culminating in late 1999 with the separation of Tenneco's last remaining operations. Since then, Tenneco Automotive has been a stand-alone company.

Revenues

With revenues over \$3.5 billion, Tenneco Automotive is one of the world's leading manufacturers of automotive emissions control and ride control products and systems for both the original equipment market and the replacement market. Forty-five percent of Tenneco's revenues come from outside of North America.

Global Presence

Tenneco has approximately 20,000 employees located throughout the world. Outside of the North America, Tenneco has manufacturing locations within Canada, Mexico, Belgium, Spain, the United Kingdom, the Czech Republic, South Africa, France, Sweden, Germany, Poland, Portugal, Argentina, Brazil, Australia, New Zealand, China, Thailand, and India. Tenneco also has sales offices located in Australia, Argentina, Brazil, Canada, India, Italy, Japan, Poland, Russia, China, Singapore, Thailand and Sweden.

Customer Base

Tenneco's customer base includes many of the largest names in automobile manufacturing. Tenneco's original equipment customers include, amongst others, General Motors, Ford, DaimlerChrysler, Volkswagen, BMW, Volvo and Toyota. Tenneco's aftermarket customer base includes many of the largest companies involved in automotive repair. These customers include NAPA, Pep Boys and Sears.

TENNECO AUTOMOTIVE INC.
LAW DEPARTMENT

Policies And Procedures Governing Representation By Outside Counsel.

Congratulations on your selection as legal counsel to join the lawyers in the Tenneco Automotive Inc. Law Department in offering legal advice to guide our Company in the operation of its business. We have identified you and your firm as a source of the expertise, service and sound business acumen that we require from all lawyers assisting us.

One of the primary goals in the operation of our Law Department is the establishment of a teamwork approach among the lawyers in our Department and outside counsel. We believe that this is the most effective approach to ensure a successful, timely and cost-effective outcome in all of our legal affairs. It also enhances the return on our shareholder's investment. These Policies and Procedures set forth our requirements for outside counsel to ensure attainment of these goals.

We strongly encourage careful study of these Policies and Procedures as your initial step on our behalf. If you have any questions, you should immediately seek clarification from the attorney in our Law Department primarily responsible for working with you on your Tenneco Automotive matter (the "Responsible Attorney"). To the extent any portion of our Policies and Procedures are inconsistent with the operation of your Firm or your representation of us, you should bring any such inconsistencies to our attention at the outset of your engagement. We will work with you to reach a mutually satisfactory resolution under these circumstances.

Authorization to Retain Counsel On Behalf of Tenneco Automotive Inc.

Tenneco Automotive's Law Department manages all of the Company's legal matters and the annual budget established for legal services by outside counsel. The Law Department seeks to retain counsel who combine the highest level of professional skill with a willingness to engage in a collaborative effort with the attorneys in the Law Department in a manner which ensures successful and cost-effective legal service.

Only the attorneys in our Law Department are authorized to retain outside counsel for Tenneco Automotive, to manage the services provided by outside counsel and to approve all bills submitted by outside counsel. Tenneco Automotive Officers and Employees outside the Law Department do not have this authority. If you or your Firm have been contacted by anyone other than a member of our Law Department regarding advice or representation, you should immediately advise an attorney in the Law Department. Absent extraordinary circumstances, fees for services provided by your Firm which have not previously been authorized by an attorney in the Law Department will not be paid.

At the time we retain you we ask that you promptly notify the Responsible Attorney of any potential or actual conflict of interest that might arise in connection with a past, current, or proposed representation of other parties or other matters. We will consider with you the propriety of waiving any potential or actual conflict of interest on a case by case basis.

Generally, we do not wish to retain outside counsel or such counsel's Firm who are, or may be, challenging a legal precedent, statute, regulation, or other rule of law, that may have adverse implications for the operations of our business in the United States or any other country where we are conducting business. In connection with your initial conflicts analysis, we ask that you assess whether any other activities by your Firm may present such adverse implications. To the extent consistent with your duty of confidentiality and other ethical constraints, we will want to discuss such activities with you and make individual judgments regarding the formation of our attorney-client relationship with you. We also expect to be apprised of any activities by you or your Firm that are inconsistent with our business interests throughout the course of your representation of us.

Media Contacts

All inquiries from the news media (general, specialized, financial or legal) concerning any matter you are handling for Tenneco Automotive should be referred to the Responsible Attorney for that matter. Outside counsel must not discuss Tenneco Automotive, its legal affairs or any financial information with the media under any circumstances.

We also require our outside counsel to refrain from discussing Tenneco Automotive or counsel's handling of matters on our behalf in seminars or written articles or in any material prepared to promote counsel or counsel's Firm.

Written Case Or Matter Plan

At the beginning of your work with us on each matter we ask that you prepare a written case or matter plan. In contested matters your written plan should address your preliminary assessment of the exposure; prospects for recovery; and the action steps you recommend for defending or pursuing claims on our behalf in a manner consistent with our underlying business objectives. Our Responsible Attorney will discuss those objectives with you at the outset of each matter. In non-contested matters your written plan should discuss the steps or action plan which you recommend to achieve Tenneco Automotive's objectives. The written plan is intended as a tool to focus on a clear action plan at the outset of each matter. We do not intend to burden counsel in rendering service. However, we want to insure a meeting of the minds between our Law Department and outside counsel regarding planned activities on each of our matters.

Staffing Worksheet

Your preliminary planning should also include an identification of the persons in your Firm who will provide services. Form A to this Policy is our Form Staffing Worksheet. Staffing decisions must be approved by the Responsible Attorney at the outset of your work on each new matter. Once the Staffing Worksheet has been approved, it may not be expanded or changed without prior approval by the Responsible Attorney. Generally, we will not pay for services by attorneys or other personnel who have not been approved to work on our behalf. We recognize that situations requiring prompt action often arise and approved attorneys may be unable to promptly respond. In such circumstances we will rely upon the judgment of our outside counsel regarding the use of unapproved attorneys or other personnel. However, we expect that this will be discussed with the Responsible Attorney as soon as practicable.

Case Budgeting

Once a plan for litigation or, if appropriate, other matters has been developed, a budget must be prepared. Form B is Tenneco Automotive's Form Annual Budget Worksheet.¹ The purpose of the budget is to quantify the specific steps required to obtain the result identified in the plan. Counsel should not underestimate the importance to us of the plan or budget. As a business, Tenneco Automotive must constantly anticipate and plan for future events, both from a strategic and tactical view point. Business is often as uncertain as litigation, yet a company must have accurate forecasts to plan its needs. Outside counsel is not being held to any standard different from any other component of Tenneco Automotive, but are simply expected to anticipate their business needs in the same detail. Indeed, the Law Department is itself subject to a budget which includes as a component fees paid to outside counsel. We can only manage our budget if we also require our outside counsel to similarly abide by a budget mutually agreed to at the outset of their representation.

The plan, staffing worksheet and budget are not carved in stone, however, any change should be agreed upon by the Responsible Attorney and outside counsel.

Tenneco Automotive's Payment of Hourly Fees

Tenneco Automotive will pay the hourly rate in effect for the partner, associate, paralegals and others identified on the Staffing Worksheet in accordance with the rates specified therein for all matters subject to hourly based fees. We require billing increments of time no larger than 1/10th of an hour in all cases or matters where charges will be based upon hourly fees.

Tenneco Automotive does not pay the additional amounts for hourly rate increases for approved lawyers or personnel unless such proposed increases have been previously discussed with the Responsible Attorney and approved.

¹We have provided two samples respectively for a litigated and non-litigated matter.

Tenneco Automotive does not pay for the services of other personnel employed or associated with your Firm who do not provide direct legal services. Such personnel include word processors, clerks, librarians or secretarial services, whether based upon straight or overtime services.

Restrictions On Fees And Disbursements For Travel

Tenneco Automotive does not pay for the time spent by attorneys to travel out of town on its behalf. However, Tenneco Automotive will pay for the actual time spent working on its behalf during the course of an attorney's travel. For example, Tenneco Automotive will pay for the time spent by an attorney working for Tenneco while on an airplane. If the attorney chooses not to work during such travel, that time will not be paid.

All out of town travel on behalf of the Company must be approved in advance by the Responsible Attorney. The Company will reimburse the reasonable and necessary travel expenses in connection with a legal matter. Reasonable and necessary expenses do not include first class airline travel, and airfare reimbursement shall be limited to coach class on all domestic flights and business class on all international flights. Tenneco pays 33 cents per mile to reimburse expenses for automobile travel.

Tenneco Automotive will not reimburse expenses for overnight stays in luxury hotels nor will the Company reimburse excessive meal expenses. All attorneys in the Law Department are required to follow these restrictions and can provide further advice regarding Tenneco Automotive expense reimbursement policies as necessary.

Restrictions On Other Disbursements

Tenneco Automotive will reimburse outside counsel for reasonable and necessary direct costs paid to third party service providers in connection with a legal matter. If anticipated disbursements to such third party providers will exceed \$500.00, counsel should obtain prior approval from the Responsible Attorney before incurring such expenses. Disbursements will be reimbursed only at counsel's actual cost.

We ask that you incur all expenses and disbursements and bill us on your monthly invoice. It saves us substantial amounts of money as a corporation to reduce the number of separate vendors who invoice us.

Unless prior approval is obtained from the Responsible Attorney, the following charges are not reimbursable:

- ▲ Secretarial or word processing.

- ▲ Photocopying costs higher than .15 cents per page or actual direct copying costs, whichever is less. The number of copies made must be stated on each invoice. Tenneco Automotive will not pay additional charges for copying personnel.
- ▲ Telecopy (Fax) charges in excess of the actual fees paid for telephone service necessary to send or receive facsimile transmissions.
- ▲ Staff service charges such as meals, filing, or proofreading.
- ▲ Charges for use of computer assisted legal research.

Working With The Tenneco Automotive Law Department

In addition to regular communications regarding developments in our matters, the Responsible Attorney should be advised of any anticipated communications with a court, administrative agency, regulatory agency, opposing counsel or party to a transaction prior to the time of such communication so that he or she has the option to be present or to participate telephonically. The results of any such communications to or from these sources should promptly be reported to the Responsible Attorney in the event he or she does not participate.

Any offer to compromise or settle a lawsuit, claim, controversy or investigation should be conveyed immediately to the Responsible Attorney regardless of outside counsel's conclusion about the reasonableness of such offer. We expect our Law Department attorneys to be constantly aware of any discussions regarding settlement and to work with you to foster those discussions in appropriate circumstances.

Our requirement for a collaborative approach to our representation extends to decisions that will involve significant expenditures of time on our behalf. We require prior consultation with the Responsible Attorney on planned activities that involve more than five total hours of attorney or paralegal time on our behalf for any single task. For example, any decisions to prepare a dispositive motion, conduct detailed legal research or participate in a voluminous document production or review should only be made after consultation with and prior approval by the Responsible Attorney.

In those matters where counsel anticipates the preparation of lengthy written work product, the proposed project should be reviewed with and approved by the Responsible Attorney. Examples of the type of written product requiring our prior approval would include any research memorandum, motion, brief, position statement, agreement, memorandum of understanding, letter of intent or other form of correspondence which will exceed four pages in length utilizing standard, double spaced typewritten format. A copy of the written product should be supplied to the Responsible Attorney promptly after its completion.

Any document prepared for filing with a court, administrative agency or other regulatory agency as well as any document intended for delivery to or service on an opposing counsel or the other party to a transaction or agreement should be prepared sufficiently far in advance of an applicable deadline to allow for meaningful prior review and comment by the Responsible Attorney.

Any decision to retain a consulting or testifying expert or any other third party consultant or service provider on behalf of Tenneco Automotive should only be made after consultation with and prior approval by the Responsible Attorney.

In addition to collaborating with the Responsible Attorney we ask all outside counsel to exercise sound business judgment on our behalf on routine decisions which may not require the Responsible Attorney's involvement. For example, decisions to conduct office conferences should be made only where necessary, attended only by personnel necessary to review the subject matter of the conference and conducted efficiently. In our experience few office conferences require more than two attorneys or more than one-half hour of time. Similarly, decisions regarding attendance by outside counsel and his or her associates and colleagues at events outside the office such as hearings, depositions, closings, drafting sessions at the printer, negotiation sessions, due diligence sessions or meetings with opposing counsel should be made in a manner that is consistent with our goal to utilize outside counsel on an efficient basis and not incur fees for associate training or the attendance by members of your Firm at such events when the attendance by such individuals is not warranted in order to provide the legal services for which we have retained your Firm. Except for very large transactions and litigation matters, we would ordinarily expect attendance by only one of your Firm's attorneys at such events.

Billing Format

To facilitate our tracking of expenses against our internal budget and payment of your invoices, we require all outside counsel to maintain a separate billing or account number for each independent matter referred by us to the Firm and to bill us separately, on a monthly basis, for each matter. Only time charges and disbursements directly related to the specific matter should be charged to that number once it is established. The Responsible Attorney will provide a descriptive name or narrative reference and our internal accounting number for each new matter at the outset of your engagement. That description should be prominently displayed at the top of your invoices. There may be circumstances or matters requiring modification of these basic requirements. In such circumstances, you should discuss billing issues and billing formats with the Responsible Attorney as one of your initial steps following your engagement. Each invoice should contain the following information:

- ▲ Tenneco Automotive's name of the project or matter;
- ▲ Tenneco Automotive's internal accounting number assigned by the Responsible Attorney;

- ▲ the name of the Responsible Attorney;
- ▲ the date of each service performed; identity of the service provider; brief description of the services; and a time charge to the nearest 1/10th hour.¹
- ▲ the hourly rate for each person and the resulting total charge for each person;
- ▲ total fees for all professional services rendered during the billing period;
- ▲ itemized list of all disbursements (include the per page charge for photocopies and an itemization of telephone charges incurred on our matters.)
- ▲ the cumulative total amount billed for services and disbursements since the matter's inception;
- ▲ the law firm's employer identification number or applicable identification number for the attorney's performing the services; and "STATEMENT ENCLOSED" on the envelope.

A sample billing statement which complies with these guidelines is attached to these Policies and Procedures as Exhibit C.

Alternative Fee Arrangements

Many of our outside counsel are now offering alternative fee arrangements which are no longer based upon the traditional hourly fee for service concept. In our experience the hourly fee concept often provides financial incentives that are simply inconsistent with sound business decisions.

We recognize that you and your Firm are in the business of practicing law for a profit just as Tenneco Automotive is in a design and manufacturing business for profit. We value our relationships with outside counsel and the advice obtained from them. We know that the attorney client relationship between us and our counsel can be a successful and mutually satisfactory one. We believe that one method for attaining that goal is consideration of alternative fee agreements which will create financial incentives for both parties to the relationship to apply and follow sound business judgment in handling our legal affairs.

We encourage all of our counsel to consider offering competitive fee arrangements such as project or matter based fixed fees, volume based discounts or discounted hourly rates.

¹ Good judgment should govern the level of detail in describing your activities. The reader should be able to understand the specific services provided in connection with your various time charges.

Exhibit A

GENERAL INFORMATION	
Matter:	
Tenneco Auto Acct. No.	

Fee Structure (Mark one): ___ Hourly ___ Contingency ___ Fixed Rate ___
 Maximums

___ *Other* (explain):

APPROVED TEAM						
ID	NAME	TITLE	RATE (\$)	OFFICE PHONE	HOME PHONE	FAX
A						
B						
C						
D						
E						
F						
G						

* Our goal is to have a team represent Tenneco Automotive that is familiar with the Company and this matter and to preserve that knowledge. Consequently, the Approved Team, as identified above, should not be expanded or changed without prior discussion with Tenneco Automotive's Responsible Attorney.

PREPARED BY:

LAW FIRM:

DATE PREPARED:

Exhibit B

GENERAL INFORMATION	
Matter:	
Tenneco Auto Acct. No.	Fiscal Year:

FEES (BY CATEGORY)	STAFF HOURS							FEES SUBTOTALS
	A	B	C	D	E	F	G	
Rates (\$) =								

(Insert Rates as Shown on Form A)

CASE MANAGEMENT (EXCLUDING DISCOVERY ACTIVITIES):

Initial Fact Gathering								
Research								
Pleadings Directed to TA								
Pleadings Filed by TA								
Client Reports/Conferences								
Dispositive Motions								
Miscellaneous								
<i>Total Hours =</i>								

WRITTEN DISCOVERY TO TENNECO AUTOMOTIVE:

Interrogatories								
Admission Requests								
Document Production								
Conferences								
Motions								
<i>Total Hours =</i>								

FEES (BY CATEGORY)					STAFF HOURS							FEES SUBTOTALS	
					A	B	C	D	E	F	G		
<i>RATES (\$) =</i>													

(Insert Rates as Shown on Form A)

WRITTEN DISCOVERY FROM TENNECO AUTOMOTIVE:

Interrogatories													
Admission Requests													
Document Production													
Conferences													
Motions													
<i>Total Hours:</i>													
<i>Total Fees (\$)</i>													

DEPOSITIONS:

Counsel Preparation													
Witness Preparation													
Deposition Time													
<i>Total Hours</i>													
<i>Total Fees (\$)</i>													

EXPENSES (By Category, Excluding Trial)	
1. Copies	
3. Travel	
4. Experts	
5. Deposition Transcripts	
6. Fax/Postage/Telephone	
7. Exhibit Preparation	
8. Other	
<i>Total Anticipated Expenses</i>	

SUMMARY	
Anticipated Fees	
Anticipated Expenses	
<i>Total Annual Budget</i>	

PREPARED BY: _____

LAW FIRM: _____

DATE PREPARED: _____

GENERAL INFORMATION

Matter:

Tenneco Auto Acct. No.	Fiscal Year:
------------------------	--------------

FEES (BY CATEGORY)	STAFF HOURS							FEES SUBTOTALS
	A	B	C	D	E	F	G	
Rates (\$) =								

(Insert Rates as Shown on Form A)

Due Diligence								
Research								
Letter of Intent								
Government Approvals								
Negotiations								
Document Preparation								
Closing								
Preparation of Closing Binder								
<i>Total Hours</i> =								

1. Copies	
3. Travel	
6. Fax/Postage/Telephone	
7. Exhibit Preparation	
8. Other	
<i>Total Anticipated Expenses</i>	
EXPENSES (By Category, Excluding Trial)	

SUMMARY	
Anticipated Fees	
Anticipated Expenses	
Total Annual Budget	

PREPARED BY:

LAW FIRM: _____

DATE PREPARED: _____

Exhibit C

Sample Statement			
Re:	Date: _____ TAX ID#: Law Firm Invoice #:		
For Professional Services rendered during the period:			
Attorney Summary:			
Attorney / Paralegal	Hourly Rate	Hours	Fee
Less Adjustments:			
Total Fees:			
Fees for costs and disbursements recorded through _____:			
Copy charges:			
Overnight Courier Service			
Telephone			
Telecopy:			
Total This Month:			
Inception to Date:			

The Global Legal Department as a Competitive Advantage

Brian Michael Martin, Esq.
Vice President Legal
Sun Microsystems, Inc.

The views expressed herein are those of the author and not necessarily those of Sun Microsystems, Inc. its officers or directors.

Introduction

Organizing Around the Voice of the Customer

One thing is certain: the development of an effective a global legal department is not an exercise in simply replicating some tested and time-honored best practices. If it were truly that easy, corporate legal departments would possess similar organizational structures and the general counsels of those companies would get more sleep. The reality is that global law departments rarely share organizational structures, coverage strategies or even charters and, at least I'm told, general counsels tend not get a lot of sleep.

Clearly, legal departments are built upon differing notions of effectiveness. In order to deploy a client-based legal department, the company – and not the legal department – defines the expectations of the legal department. The legal department then organizes and sets coverage, priorities and goals based upon those expectations. The voice of the client or “VOC” data is the foundation to an effective legal department as it provides answers to the following exemplary questions:

- Does the company desire a legal department that is staffed to enable proactive business partnering or one that is organized to react to legal issues that arise in the course of doing business?
- Does the company see value in deploying a legal team with deep substantive expertise or can the same service level be achieved through outsourcing legal services?
- Does the company view the legal department as a potential source of competitive advantage for the company or is the primary objective of the law department “to keep us out of trouble”?
- How does the legal department respond to pressures or directives to cut costs?
- Where does the legal department deploy new headcount? If necessary, where does it disinvest headcount?

The organizations implications of the VOC data are profound. The VOC data permits the law department to identify the company's critical-to-quality characteristics (CTQs) for the legal function. In effect, the CTQs are the company's measures of the legal department's effectiveness and provide the filter by which the organizational structure and initiatives are measured and evaluated. Pursuant to this model (based upon the Six Sigma quality methodology) every legal department undertaking, process improvement and coverage strategy must be aligned with one of the CTQs. The result should be an effective, client-focused legal organization. The VOC/CTQ methodology, as implemented by Sun's Sales, Distribution and Delivery Legal Group, is depicted below:

Legal departments are different because companies have different CTQs for their legal function. An effective global legal department is not defined by some widely accepted objective measures but by unique VOC data and CTQs. In that spirit, Sun Microsystems' approach to its global legal department is offered.

Sun Microsystems: A Global Technology Leader

Founded in 1982, Sun Microsystems ("Sun") has developed into a global technology leader. Currently, Sun is a Fortune 153 company with over 35,000 employees. Sun's business is singularly focused on products and services for network computing. Network computing has been Sun's focus for the more than 20 years of our existence, and is based on the premise that the power of a single computer can be increased dramatically as it is interconnected with other computer systems for the purposes of communication and sharing of computing power. Sun's product line consists of computer systems products, storage products and associated services.

Sun has offices in over 100 countries and derives over half of its revenue from its international operations. Sun's global presence is mapped out below:

Sun's Global Infrastructure

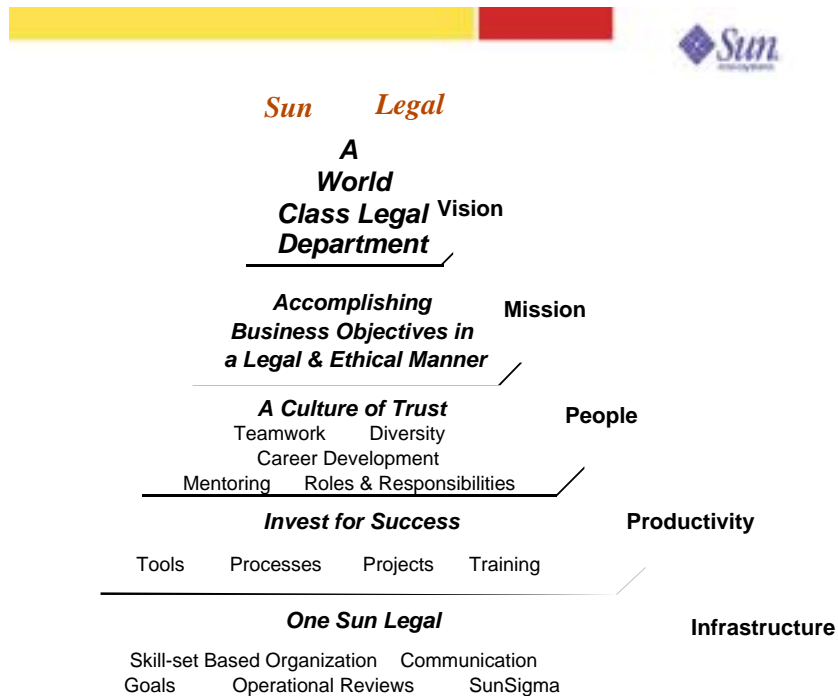


**The Legal Department as a Competitive Advantage:
A Brief Overview of Sun Microsystems's Legal Department**

Using the Six Sigma methodologies described above, the Sun Microsystems' Legal Department has identified three CTQs. Specifically, legal services must be delivered in a 1) competent, 2) responsive, and 3) cost effective manner. The legal department's Mission Statement is as follows: "To meet our fiduciary obligations by providing the best and most responsive legal support so that Sun may accomplish its business objectives in a legal and ethical manner."

Sun's legal professionals strive to discharge these CTQs through a business partnering relationship with their clients. This approach recognizes that Sun legal personnel can be most effective if they fully understand their clients' business objectives. This requires, *inter alia*, integration into the clients' staff and a full appreciation of the dynamics of the clients' business. Once the business partner status is achieved, proactive counseling and participation in strategic decisions are possible. The business partner approach requires a competency in non-legal elements of the business but permits the lawyer and the legal department to emerge as a competitive advantage to the company.

The vision for the Sun Microsystems' Legal Department is to be a world-class legal department. That vision and its components are depicted below:

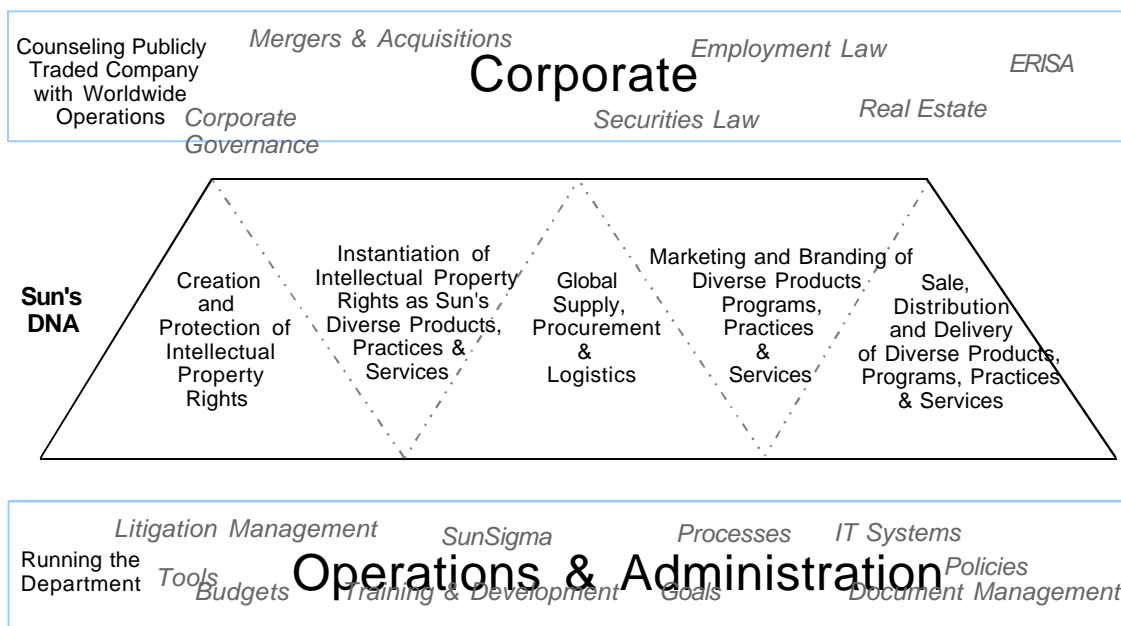


This vision requires department-wide dedication to its people through, *inter alia*, diversity, teamwork projects, career development and mentoring initiatives. A world-

class legal organization also requires that the team work at maximum productivity. Accordingly, the department dedicates resources to productivity tools, process improvements and training initiatives. Finally, the vision requires focus on fundamental matters such as the organizational structure, communication habits, goal development and quality improvements.

The vision has inspired the Sun Legal Department to shed the old methods in favor of a client- focused, efficient and professionally exciting approach to in-house counseling. For example, soon after his appointment, Sun's General Counsel John Croll reorganized the legal department. Rather than organizing around business units, the department is now aligned according to function and focus. Accordingly, the Sun legal professionals who possess similar skills and who work on similar subject matters have been organizationally aligned. The efficiencies of such a model, such as work sharing, best practices discussions, elimination of redundancies, and better communication, have been palpable. The innovative structure of the Sun Legal Department is depicted below:

Sun Microsystems, Inc. Legal



Sun's legal department is the size of a significant law firm and investment in the productivity of its employees is a critical element in maintaining morale and retaining top talent. In an effort to demonstrate that the department was serious about arming the team for success, one of the company's most senior lawyers was appointed as the Legal Operations Director. Under that individual's direction, the legal department has developed cutting edge productivity tools such as a legal portal including knowledge management capabilities, a document storage system, on-line training and contract creation tools. A world-class legal organization

should be enabled to work at their peak performance; this investment in the tools permitting such performance is delivering upon that vision and motivating the department.

Sun's Legal's International Legal Coverage Model

It would be only a slight exaggeration to say the Sun never sets on the Sun Microsystems' Legal Department. Sun lawyers are deployed in 24 countries and are resident with Sun executives in Sun's major international offices. Specifically, Sun has legal professionals in the following countries:

- United States
- Canada
- Mexico
- Brazil
- Argentina
- Australia
- Japan
- Korea
- Singapore
- Hong Kong
- PRC
- Germany
- England
- France
- Sweden
- Belgium
- Switzerland
- Italy
- Dubai
- Spain
- Russia
- Netherlands
- Hungary
- Greece

This coverage model is the product of performing extensive voice of the customer analysis. As Sun's business developed outside the US, Sun executives required legal business partners who were local law experts and possessed the business acumen required to be full members of the local management teams. This model was also shaped by the executives' dire to receive legal services in the local language and with a mastery of the local business culture and practices. Sun believes that the international lawyers can deliver a competitive advantage to the

company by being a local source of comprehensive legal services and that alignment with the local businesses enables the delivery of quality, responsive and cost effective legal services to the company.

With this coverage model, Sun has drastically reduced its outside counsel services outside the US. Indeed, trends in outside counsel spend spur prompt evaluation of the current coverage model to assure efficient deployment or the need for additional resources.

The lawyers outside the US serve as “general counsels” for the local businesses. While corporate legal resources (i.e., HR) are leveraged, the local lawyers handle an array of legal issues including:

- * Outbound transaction management
- * Human resources issues
- * Corporate compliance
- * Distribution/antitrust counseling
- * Local marketing initiatives
- * Localization of corporate initiatives
- * Legal counseling and risk management
- * Local tax matters
- * Subsidiary management
- * Sales program development
- * Training
- * Local support of M&A activities
- * Local support of in-bound licensing

Placing a local legal expert in the local office is intended to maximize the counsel's exposure to the business and thereby enable proactive and informed business partnering. This coverage model presents some unique challenges and that is the topic of the next section.

The Challenges of the Distributed Global Legal Department

Being the only lawyer in Hungary or Korea can have its challenges. Keeping these lawyers connected to the broader legal department is paramount but quite formidable. This is particularly difficult in the current environment where cost-cutting has eliminated the use of expensive strategies such as all-hands meetings, ex-pat rotations and non-business related travel. Still, the local lawyers' primary responsibility is to the legal department and building a global legal community within which that lawyer feels supported and loyal is essential. The following are some of the initiatives used by Sun to develop such a global legal community.

Communications. Communicating the legal department priorities, initiatives, goals is a critical element in building Sun's global legal community. Two tools that have been particularly effective are regular web casts and the deployment of a legal department portal.

On a monthly basis, Sun legal has held web casts where legal issues, business developments or other relevant matters are discussed. Those calling into the web

casts are able to ask questions or raise issues on the topics presented. In order to assure active participation by the distributed legal teams, the web casts are held at two different times: one more convenient for the Europeans and US East Coast teams and the other more convenient for the APAC and US West Coast teams. This approach is preferred over the “tape and replay” approach because it permits for meaningful participation and the ability to shed a local perspective on the topics.

A second successful communication tools has been the deployment of a Sun Legal portal. This particular portal is not focused on the clients but on the needs of the legal professionals. Rather, this portal is the single source of tools and information required by the legal department. Specifically, the portal includes:

- Daily departmental news;
- Knowledge management library;
- up-to-the-minute dashboards on the current legal goals;
- Leadership portal (designed to provide tools and resources for the departments managers and directors);
- Legal forms and agreements;
- Legal policies;
- Legal’s mentoring program reports and opportunities;
- Legal’s Six Sigma initiatives and training reports;
- Tools including document creation tools;
- Productivity tools and links to important corporate sites and tools; and,
- Sun Legal’s diversity policy and initiatives.

Regardless of where they are located, the Sun lawyers can access this portal and receive the information and support necessary for them to perform their jobs. The portal has replaced broad e-mails as the preferred communication tool within the department. The portal builds a community by providing a “town square” where lawyers can reach out to others and thereby feel part of a large and empathetic department.

Membership on Cross-Functional Teams. Another community-building strategy is to place lawyers on company or legal department goal teams. These assignments permit the counsel to interact with lawyers and executives with whom the counsel would not have an opportunity to interact on a day-to-day basis. These assignments help forge personal relationships and open communication lines across the department.

Reassignments and Immersion Program. Given the global nature of Sun's business, the wisdom of investing in programs that develop broad international legal skills is clear. While Sun does not have the opportunity to provide ex-pat packages to lawyers wishing to experience an international assignment, Sun does support international rotations and reassignments for lawyers who desire a permanent move. The programs are expensive and therefore are reserved for high performing employees. The need for local language and legal skills also limits the locations where such rotations and reassignments are feasible.

Sun has also used an immersion program where a lawyer will be sent to work for a period of six to eight weeks to a particular location (either corporate headquarters or a field office). This permits the attorney to experience the nature and uniqueness of the work undertaken by different groups within different geographies. The length of the assignment precludes complete immersion but, at a minimum, the experience builds relationships and fosters the building of the global legal community.

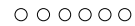
Conclusion

Sun's global legal department is as unique as Sun Microsystems. The department is organized pursuant to a continuous mining of the voice of the customer data and the associated critical-to-quality characteristics defined by the business. Sun's efforts to build a global legal community responds to that VOC by deploying legal team that provides a competitive advantage to Sun.

American Corporate Counsel Association
2003 Annual Meeting

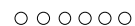
905 Managing an International Law Department

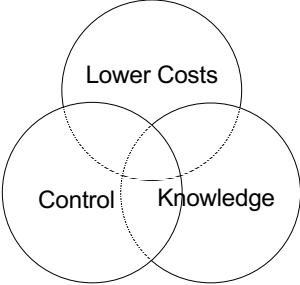
M. Rush O'Keefe, Jr.,
Senior Vice President & General Counsel

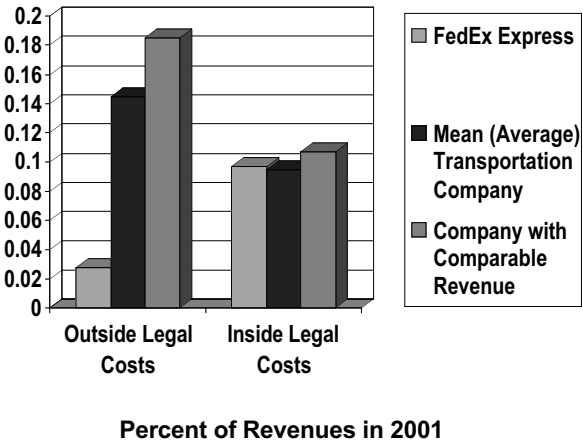


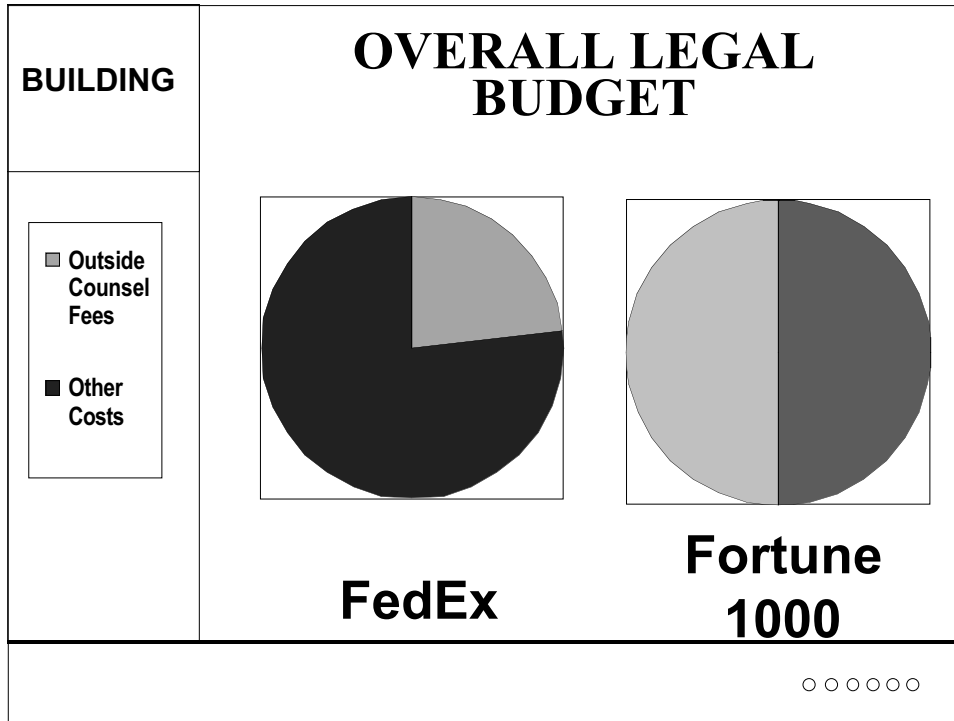
A ROADMAP

- Building FedEx Legal
- Developing FedEx Legal
- Maintaining FedEx Legal

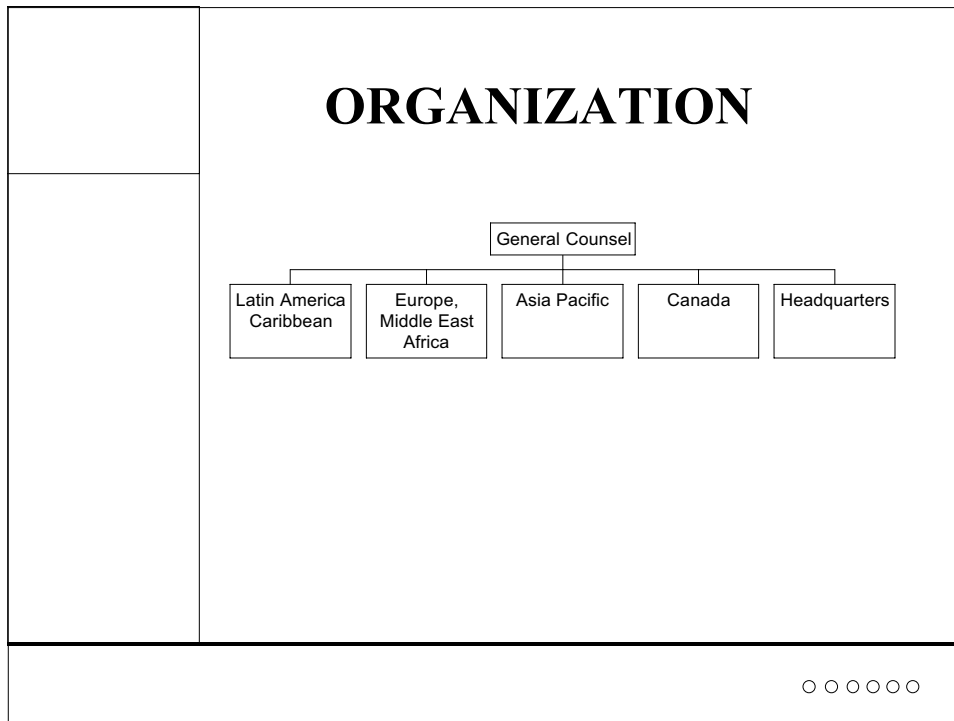


BUILDING	<h2>FEDEX LEGAL</h2> <ul style="list-style-type: none"> ▪ 70 attorneys; full service ▪ Law firm vs. in-house counsel debate 
○ ○ ○ ○ ○	

BUILDING	<h2>LEGAL COSTS</h2> 
○ ○ ○ ○ ○	



- | | |
|-----------------|--|
| BUILDING | <h2 style="text-align: center;">IN-HOUSE LIMITATIONS</h2> |
| | <ul style="list-style-type: none">▪ Multiple Jurisdictions▪ Expertise▪ Foreign Rules on Privacy, Privilege & Confidentiality |
| ○ ○ ○ ○ ○ ○ | |



- | | |
|----------------|---|
| DEVELOP | <h1>EXPATRIATES</h1> |
| | <ul style="list-style-type: none">▪ Tax Issues▪ HR Issues▪ Work Permits |
| | ○ ○ ○ ○ ○ ○ |

DEVELOP	IN-HOUSE FOREIGN COUNSEL
	<ul style="list-style-type: none"> ▪ Transition Period ▪ Fluent English Speaker; Studied Law in U.S. ▪ Know Local Legal System ▪ Help Avoid Pitfalls ▪ 2 of 4 Regional Offices Led by and Staffed Entirely With Foreign Counsel
○ ○ ○ ○ ○ ○	

MAINTAIN	COMMUNICATION
	<ul style="list-style-type: none"> ▪ Updates ▪ Technology ▪ General Counsel Visits ▪ All Legal Meeting
○ ○ ○ ○ ○ ○	

MANAGING THE FEDEX EXPRESS LEGAL DEPARTMENT

M. Rush O'Keefe, Jr.
Senior Vice President & General Counsel
Federal Express Corporation

BUILDING AN INTERNATIONAL LAW DEPARTMENT

The FedEx Express legal department includes over 70 lawyers, with several groups based overseas at regional headquarters locations.

The department has most of the capabilities of a full-service law firm (except a billing department). Some of the areas in which our attorneys practice include tax, business transactions, real estate, intellectual property, litigation, labor and employment, regulatory and government affairs.

The defining characteristic of the FedEx legal department is the vast majority of the legal work is performed in-house. The advantages of in-house counsel include (a) lower cost, (b) better control over proceedings, and (c) greater knowledge of the business, corporate culture and the industry.

According to a July, 2003 *General Counsel Roundtable (GCR) Benchmarking Exercise* involving approximately 80 corporations, the median company with comparable revenues to FedEx (between \$10 billion and \$20 billion) spent 14.4 percent of its revenues on outside legal expenses in 2001.¹ In stark contrast, FedEx spent only 2.8 percent on outside expenses that same year.

At the same time FedEx has maintained control over its inside legal expenses. While the median transportation company spent 9.5 percent on inside legal expenses in 2001, FedEx's in-house expenditure was only slightly higher at 9.7 percent.²

Corporate Legal Times recently reported that a study conducted by Kirkpatrick & Locknut found about half the companies surveyed spend at least 50 percent of their legal budget on outside counsel. Likewise, BTI's 2003 *Benchmarking In-House Counsel Management Practices* survey confirmed that among Fortune 1000 companies almost *half* of each legal dollar now goes to outside counsel.³ Finally, an ACCA/Serengeti Survey (2001) found outside spending constituted 65 percent of total legal spending, not counting an estimated 8.5 percent of inside spending that is attributable to outside counsel management. In comparison, outside counsel fees account for less than 23.5 percent of the overall FedEx legal budget in 2002.⁴

As discussed in more detail below, FedEx's heavy reliance on in-house counsel is made more difficult outside the U.S. by a couple of factors. First, use of in-house counsel is limited internationally by the multiple jurisdictions. For example, our Asia Pacific division covers global transactions in over 30 countries from Australia to Vietnam. Our Latin America/Caribbean region has 51 countries. Our

¹ The mean transportation company's outside legal expenses were even higher, at 14.5 percent.

² FedEx's inside expenses are substantially less than companies with comparable revenue (reporting 10.7 percent inside legal expenses) or all companies in general (reporting 16.6 percent).

³ According to BTI the average company's spending on outside counsel increased by more than 10 percent over the previous year.

⁴ The overall legal budget at FedEx is approximately \$22.9 million. All outside professional fees account for roughly \$6.1 million. At least \$662,852.22 of that amount is attributable to non-outside counsel professional fees (e.g., court reporting and expert fees); therefore, we have estimated \$5.4 million in outside counsel fees for fiscal year 2002.

Europe/Middle East/Africa legal division comprises over 130 countries. Obviously, it is impossible for a limited number of in-house attorneys to be licensed to appear in all of these jurisdictions. Nevertheless, among FedEx's regional offices outside counsel expenses average only 38.5 percent of their respective legal budgets.

Even if in-house counsel could manage to be licensed everywhere, it would be difficult to achieve the necessary expertise given how greatly laws vary from country to country. This is particularly true of labor and employment laws. For example, even within the EU each Member State has its own employment laws, rules and procedures despite employment-related directives mandated by the EU.⁵

Second, use of in-house counsel is further limited internationally because of foreign rules on employee privacy, privilege and confidentiality. For example, the European Union does not provide the same level of protection we are accustomed to in the United States. According to the European Commission, there is no attorney client privilege between in-house counsel in Europe and their clients for internal communications.

DEVELOPING AN INTERNATIONAL LAW DEPARTMENT

The regional offices of FedEx Legal follow the company's international business growth. FedEx currently serves 213 countries. The Legal Department currently has four regional offices, in addition to its headquarters group at the company's international headquarters in Memphis, Tennessee: (1) Latin America/Caribbean; (2) Europe/Middle East/Africa; (3) Asia Pacific and (4) Canada.

Each regional office was initially established by employees who are not citizens of the country in which the regional headquarters is located. Someone who is transferred to a foreign country by the company for an extended period of employment and then returns to the United States to continue working for the company is referred to as an "expatriate." Relocating employees or placing them on a temporary overseas assignment presents unusual and complex tax and HR issues. Because foreign assignments result in multiple jurisdiction taxation, foreign service allowances, reimbursements and company provided resources are often subject to taxation both in the host country as well as the home country. Accordingly, this additional tax burden can make an employee's acceptance of the foreign assignment prohibitive. For this reason multinational employers often seek to protect their employees by offering a guaranteed net compensation package or providing full tax equalization.

Procedurally, tax equalization is accomplished by discontinuing U.S. tax withholding at the time that the employee begins the foreign assignment and is expected to qualify for expatriate tax benefits. The employee's base salary is then reduced by the amount of "hypothetical tax" that the employee would be expected to pay had the employee not been on foreign assignment. The employer then assumes full responsibility for paying all domestic and foreign income taxes that are associated with the foreign assignment income. Because all tax benefits associated with the foreign assignment are claimed for the benefit of the employer the cost of providing tax assistance is significantly reduced while avoiding an unintended tax windfall to the employee at the employer's expense. Obviously, a company must determine for itself that an expatriate's knowledge of the company and corporate culture warrants this additional expenditure.

Nevertheless, there are certain practical limitations on relying exclusively on expatriates overseas. For example, Canada has a 7-year maximum duration for foreign managers/executives to work in Canada.

⁵ The 15 EU Member States are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

The person must first obtain a work permit for a specified length of time. Inter-company transfers of managers/executives to Canada are initially valid for 1 to 3 years, and then extended in increments of two years up to the 7-year maximum duration. To avoid problems it is highly recommended that a company retain the services of a law firm that specializes in immigration law. For instance, FedEx uses the firm of Howard Greenberg in Toronto, Ontario, Canada. At the end of seven years, the expatriate must decide if he or she wants to apply for landed immigrant status and begin paying taxes there, or return to the United States.

Similarly, in Brussels a work permit is valid for only one year with annual renewal for a 4-year maximum duration. An employee must apply for special permission to work in Belgium past the 4-year maximum duration. FedEx has also found it cost prohibitive for an expatriate to remain on Belgium soil beyond that time.

Due to the costs and limitations inherent in expatriate positions, the succession plan at FedEx has been to transition from expatriates to in-house foreign counsel at each of the regional offices.

Initially, the regional office is overseen by an expatriate. He or she will hire several local native professionals to work as international counsel or legal advisors at the regional office. When hiring foreign counsel for an in-house position, we look for a fluent English speaker who has studied law in the United States. We have found our foreign attorneys to be indispensable to our regional offices. They know the local legal system and help us avoid the many pitfalls (e.g., repatriation of profits, government licenses, and foreign ownership restrictions).

A newly hired foreign counsel is thoroughly oriented to the company's legal policies and priorities. The regional counsel serves as his or her mentor. In addition, the foreign in-house counsel is expected to visit the company's international headquarters in Memphis.

Once an expatriate returns to the United States, the in-house native attorneys have the opportunity for promotion. Foreign counsel are continually being prepared to be ready to fill management positions in Legal as they open. Today two of our four regional offices are led by and staffed entirely with foreign counsel.

MAINTAINING AN INTERNATIONAL LAW DEPARTMENT

Good communications is the key to maintaining our regional offices as an integral part of a world-wide legal department.

The regional offices work closely with and are updated constantly by the attorneys at the corporate headquarters. Technology is a critical component of these communications. E-mail is extraordinarily useful for distant time zones. We also make extensive use of conference calls. The corporate office is fully equipped with video-conferencing capabilities with each of the regional offices. Many of our attorneys are also equipped with blackberry devices, international mobile phones and laptops.

In addition, the General Counsel visits each regional office on a regular basis. This helps ensure continued coordination between the regional offices and headquarters. It is vitally important that remote locations feel connected to the rest of the legal department. This year all of the company's attorneys were brought to the Peabody Hotel in Memphis for a three day meeting which included presentations by each section head and by the senior officers of the company.