Phillips Lytle LLP

Beyond Dispute

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A BUSINESS AND COMMERCIAL LITIGATION REPORT FROM PHILLIPS LYTLE

Decoding E-Discovery: 7 Things to Know about E-Discovery

1. E-DISCOVERY HAS EVOLVED CONSIDERABLY OVER THE LAST SEVERAL YEARS.

The first *Zubulake* decision (the first of the seminal progeny of case law on e-discovery issues) was issued eight years ago. The Federal Rules of Civil Procedure were amended to address e-discovery five years ago. Since then, there have been numerous court decisions concerning e-discovery issues and recent ethical decisions have addressed timely issues relating to social networking topics. Some form of electronic discovery is almost unavoidable for every litigation these days. By knowing the basics of e-discovery, you can help determine what level of e-discovery is appropriate for your litigated matter and help control the cost of this discovery.

2. EVERYTHING IS ELECTRONIC— EVEN PAPER BECOMES ELECTRONIC.

E-discovery concerns the process of preserving, collecting, processing, reviewing and producing electronic information during the course of litigation. Don't let the name fool you, it's not just "e"-discovery; rather, discovery implicates all types of information – tangible and electronic. Paper documents are often converted into electronic files, so there is one "universe" of evidence.

This article will focus on four discovery stages: collection, processing, review and production. During litigation, attorneys will identify and obtain relevant documents (tangible and electronic) from clients, witnesses and opposing parties – the collection stage. In addition to electronic data, paper is converted into a reviewable electronic format. Documents can be scanned and saved as TIFF images (or PDFs). The images are then OCR'd (optical character recognition) to electronically capture the document's text. In essence, OCR technology attempts to identify the characters on the tangible document and create a digital file reflecting the document's content. OCR allows tangible documents to be searched electronically. This is the processing stage.

Once processed, attorneys and paralegals engage in the review stage – analyzing the information, via a litigation data management program, and determine what will be produced to the opposing party – the production stage. Litigation management programs (software or web-based) typically make review of thousands (or more) of documents easier, faster, more manageable and, therefore, more cost effective.

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3. CHASING INFORMATION—THE CLOUD, SOCIAL NETWORKING, HANDHELDS AND DELETED INFORMATION.

Electronic information is not just found behind a company’s firewall. Sometimes, it is in the “cloud.” Cloud computing is using a network of servers, hosting various applications, outside of the organization instead of inside the organization. For example, instead of obtaining a Microsoft license for Word or Outlook, Google Docs or Gmail could be used. Money is saved on licensing and the data is stored on another’s server providing additional cost savings on storage. Contracts with cloud service providers (CSPs) and the CSP’s policies will be important to determine how to obtain relevant information, and the cost associated with doing so. Although there may be low costs to use services via the cloud, there may be increased costs or risks to retrieve a company’s information from the cloud.

Many persons and entities are also communicating via weblogs (“blogs”) and/or social networking sites (FaceBook, LinkedIn, Twitter). If these communications are relevant to litigation or anticipated litigation, they should be preserved. Preserving dynamic web pages, however, may be challenging. Many times information is posted, then deleted or overwritten. The deleted information may not always be recoverable from the machine of the person who made the post, and it may not be available from corporate servers. The information may be available via the hosting third-party (social networking provider (SNP)), but many SNPs do not keep information for long periods of time, and they may not have all relevant information. The information may be available from the person who posted the information. The user who posted the information could log onto the website and download the profile, or give access to the page by providing login information. If a person refuses to download or provide access, and if relevant, a court may order that the person provide access, by either giving the login information to the requesting party, or by requiring the person to provide the SNP with written consent to deliver the relevant information to the requesting party. Again, however, by the time access is given, there may be nothing to find if the information was already deleted or overwritten. Technology specialists should be consulted to understand specifically what can and cannot be recovered.

Other websites, such as corporate websites, which are also dynamic, may have relevant information. This information may be pulled off the corporate web server or, if hosted by a third party, requested from the third party. Again, reviewing contracts with hosting third parties will be important to determine how best to retrieve data and the costs associated for doing so. In addition, there are third-party vendors that may be able to help retrieve and store such information on a systematic basis. Also, there are some websites that offer free access to archived web pages.

Electronic information may also be found on handhelds. Many persons use smart phones to transmit text messages and take pictures. This information may best be discoverable from the device itself.

Finally, there may be deleted information that may become important. This data may still be recoverable through computer forensics experts.

4. CREDIBILITY IS CRITICAL.

No matter what is at issue – social networking or corporate emails – how information is collected and preserved is imperative. Always ask whether the steps employed in e-discovery are challengeable. If so, find the best collection methods to avoid any such challenges. For example, chain of custody is essential. Make sure the right person is collecting the information, it is collected properly (integrity of data is maintained) and that the collection process is well-documented. The person collecting may be called to attest to collection methods.

5. DON'T FAKE IT—ASK QUESTIONS.

There are many e-discovery vendors, each with a different point of view. Some assist with collection, processing, review and/or production, while others provide all of the foregoing services. There are numerous ways to tackle e-discovery issues, each with different benefits, risks and costs. It is important to shop around and ask questions. Since there are so many different approaches and a myriad of services – all changing every day – it is vital to ask questions to determine how the vendor can best serve you.

6. KNOWLEDGE KEEPS COSTS DOWN.

The number one way to cut costs on e-discovery, is to understand e-discovery. This starts with understanding the universe of possible information, i.e., where information is stored and how to retrieve it. Understand also what must be saved when litigation is anticipated. Not everything needs to be captured, and not everything that is captured needs to be processed. Work with counsel to understand what must be kept and processed, and what must be kept, but not processed. Sometimes using a vendor saves costs, as compared to using someone in-house. This is because the vendor may have special expertise and tools that an in-house person may not.

7. KEEP AN OPEN MIND.

Technology changes fast and e-discovery vendors change too. Stay current on technologies that can assist you in collecting, processing or reviewing information. Try vendors and research up-and-coming services. Understand the features, benefits and risks of new services. Some products are more expensive up front, but may pay dividends down the road.

This article was written by Jennifer A. Beckage, an Associate in the Phillips Lytle Business & Commercial Litigation Practice. Those with questions about e-discovery may contact Jennifer at (716) 847-7093 or jbeckage@phillipslytle.com.

Second Circuit Affirms the Grant of a Preliminary Injunction on Non-Compete Agreement

In *IDG USA, LLC v. Schupp,* No. 10-CV-76S, 2010 U.S. Dist LEXIS 84668 (W.D.N.Y. Aug. 15, 2010), *aff'd in part, vacated in part, and remanded,* 2011 U.S. App. LEXIS 6114 (2d Cir. Mar. 25, 2011), Phillips Lytle represented the plaintiff IDG USA, LLC ("IDG") against its former employee, defendant Kevin J. Schupp. IDG is a leading national supplier of industrial abrasives and lubricants. Defendant was employed as a sales representative for IDG.

The defendant signed a Non-Compete Agreement ("NCA") with IDG which contained a post-employment restrictive covenant. The NCA prohibited defendant, for a period of 12 months (from the date of defendant's resignation, or from the date injunction is entered against defendant, whichever is later), from: (1) taking competitive employment within a 50 mile radius of the IDG office in Amherst, New York; (2) soliciting competitive orders or patronage from certain IDG customers; and (3) using IDG's confidential information.

The defendant voluntarily resigned his employment with IDG in mid-January, 2010. He immediately took employment with a direct competitor and commenced soliciting the customers he serviced as an IDG employee.

On January 29, 2010, IDG commenced an action against defendant seeking enforcement of the NCA. It was undisputed that in the three years prior to defendant's resignation, IDG had reimbursed defendant significant amounts for customer development/entertainment expenses. The defendant challenged IDG's right to enforcement of the NCA, alleging that its restrictions were void as against public policy and that IDG had breached its employment agreement with, and/or constructively terminated, him. The defendant's breach/constructive termination defense was based upon a company-wide salary reduction which was undertaken to save jobs in the wake of the economic downturn in 2009.

The District Court entered a preliminary injunction against defendant prohibiting him from: (1) working in a similar capacity (i.e. sales representative) for a competitor of IDG within 50 miles of IDG's Amherst, New York office; (2) soliciting certain IDG customers; and (3) disclosing IDG confidential information and/or trade secrets. On March 25, 2011, the Second Circuit, by Summary Order, affirmed the District Court's Preliminary Injunction Order, in part, and remanded for the District Court to specify a "duration" for the Preliminary Injunction and for further specification of the confidential information that defendant is prohibited from disclosing.

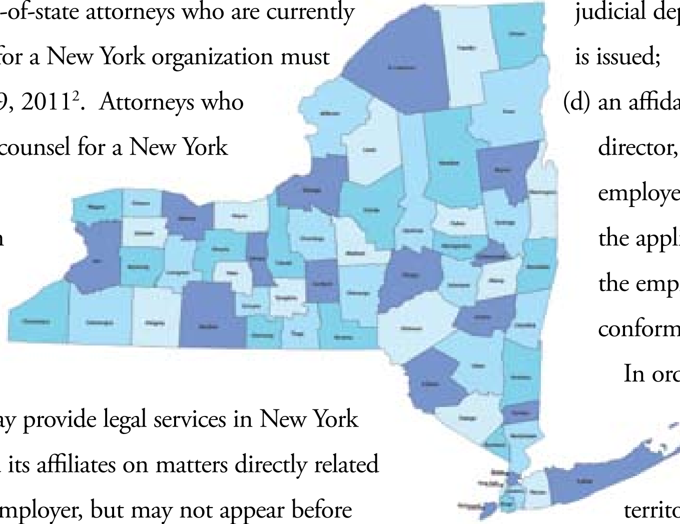
The Second Circuit affirmed the District Court's Preliminary Injunction Order, citing *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382 (1999), and acknowledging that "[u]nder New York law, an employer has a legitimate interest in both its customers and its trade secrets." The Second Circuit held that the District Court acted "within its discretion to conclude on the record of the preliminary proceedings that IDG did not breach the NCA" and rejected defendant's constructive termination claim. Finally, the Second Circuit held that "IDG presented substantial evidence that [defendant] was disseminating IDG's secrets" and that the District Court was "within its discretion to conclude that IDG satisfied the irreparable harm requirement . . . ."

On remand, the District Court specified a duration for the preliminary injunction of one year from the date of the order enjoining the defendant's conduct; and further defined the information that the defendant prohibited from disclosing.

This matter was handled by Kevin J. English, Practice Group Leader of Phillips Lytle's Litigation Practice and Christopher L. Hayes, Associate. Kevin and Chris worked closely with Michael J. Allen, a Partner in the Greensboro, N.C. firm of Carruthers & Roth, P.A. ■

Rules of the New York Court of Appeals for the Registration of In-House Counsel

On April 20, 2011, a new rule adopted by the New York Court of Appeals took effect providing for in-house attorneys who are licensed in another United States jurisdiction, but not in New York, to register as in-house attorneys entitled to practice in New York State without taking the bar exam[1]. Out-of-state attorneys who are currently employed as in-house counsel for a New York organization must apply for registration by July 19, 2011[2]. Attorneys who become employed as in-house counsel for a New York organization after the effective date must apply for registration within 30 days of beginning their employment[3].



Under the new rules, a registered in-house attorney may provide legal services in New York for the attorney's employer and its affiliates on matters directly related to the attorney's work for the employer, but may not appear before a New York court or provide individual legal services[4]. Additionally, registered in-house attorneys will be subject to all of the rules that govern attorneys admitted to practice in New York State such as the New York Rules of Professional Conduct, payment of a biennial fee and compliance with CLE requirements[5].

In order to apply for registration, the applicant must file the following items with the Clerk of the Appellate Division in which the applicant resides or is employed or intends to be employed as in-house counsel[6]:

(a) a certificate of good standing from each jurisdiction in which the applicant is licensed to practice law;

(b) a letter from each jurisdiction's grievance committee certifying whether charges have ever been filed with or by such committee against the applicant;

(c) an affidavit certifying that the applicant performs or will perform legal services solely and exclusively in New York State and agrees to be subject to the disciplinary authority of New York State and comply with all of the rules governing attorneys in the judicial department where the attorney's registration is issued;

(d) an affidavit or affirmation signed by an officer, director, or general counsel of the applicant's employer, on behalf of the employer, attesting that the applicant is or will be employed as an attorney for the employer and that the nature of the employment conforms to rule 522.

In order to remain in compliance under this new rule, the in-house attorney must remain in good standing in at least one state or territory of the United States, register with the Office of Court Administration and comply with the appropriate biennial requirements[7]. Registration under this rule ceases when the in-house attorney is no longer employed by the employer listed on the attorney's application, and it is the attorney's responsibility to notify the Appellate Division of the termination of employment[8].

If you would like to discuss further the rules of registering as in-house counsel in New York State, contact Tamara Daniels, Associate in the Phillips Lytle Business & Commercial Litigation practice at (212) 508-0406 or tdaniels@phillipslytle.com. ■

[1] *22 NYCRR § 522.1 (2011).*
[2] *22 NYCRR § 522.7 (2011).*
[3] *Id.*
[4] *22 NYCRR § 522.4 (2011).*
[5] *22 NYCRR § 522.3 (2011).*
[6] *22 NYCRR § 522.2 (2011).*
[7] *22 NYCRR § 522.3 (2011).*
[8] *22 NYCRR § 522.5 (2011)*

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E-Discovery Update Regarding Litigation Holds

In *Pension Comm. of the Univ. of Montreal Pension Plan v. Banc of Am. Sec., LLC,* 685 F. Supp. 2d 456 (S.D.N.Y. 2010), Judge Shira Scheindlin established a bright line rule that litigants must issue written "litigation holds," lest they risk spoliation sanctions. Two decisions have since rejected this standard, one from the Southern District, and more recently from the Western District of New York.

In *Orbit One Commc'ns v. Numerex Corp.,* No. 08 Civ. 0905 (LAK), 2010 U.S. Dist. LEXIS 123633 (S.D.N.Y. Oct. 26, 2010), the Court denied a motion for sanctions, despite the plaintiff's failure to implement a formal litigation hold at the start of the litigation. The Court held: "No matter how inadequate a party's efforts at preservation may be . . . sanctions are not warranted unless there is proof that some information of significance has been lost." *Id.* at *1. The Court noted however, that "a party is well-advised to retain all relevant documents (but not multiple identical copies) in existence at the time the duty to preserve attaches." *Id.* at *6.

More recently, in a decision filed April 21, 2011 in the Western District of New York, Magistrate Judge Leslie G. Foschio distinguished the facts of *Pension Committee* and declined to follow that Court's bright line rule regarding written litigation holds.
In *Steuben Foods, Inc. v. Country Gourmet Foods, LLC,* No. 08-CV-561S(F), 2011 U.S. Dist. LEXIS 43195 (W.D.N.Y. Apr. 21, 2011), the Court addressed the adequacy of an oral litigation hold issued by Steuben's corporate counsel through conversations with the company's executives and managers. In denying the defendants' sanctions motion, the Court held that a written litigation hold was not essential. The Court noted that the plaintiff had already produced a substantial amount of documentation, was relatively small in size (400 employees), and that the missing emails were limited in number and not relevant to the dispute.

Neither case stands for the proposition that written legal holds are now unnecessary. But they do stand for the proposition that the failure to adopt good preservation practices is only one factor to consider in the imposition of sanctions. It is almost always advisable to issue a written litigation hold as a part of a company's "reasonable and good faith efforts" to preserve information when litigation arises or is reasonably anticipated.

These two decisions do, however, recognize that the scope of preservation should be guided by some sense of reasonableness and proportionality, to limit the burden and expense of electronic discovery.

For more information pertaining to litigation holds, contact John G. Schmidt Jr, Partner in the Phillips Lytle Business & Commercial Litigation Practice at (716) 847-7095 or jschmidt@phillipslytle.com. ■

Use of Receivers and Referees to Obtain Control Over

New York law provides that a court may appoint a receiver to dispose of property subject to a judgment. Appointment of a receiver may be particularly helpful where the judgment debtor has indirect control over assets sought by the judgment creditor.

This situation arose when the business partner of our client defaulted on a promissory note made in favor of the client. Using expedited procedures, we were able to quickly obtain a judgment on the note. We then applied to the court to appoint a receiver to take control of, and dispose of, the business partner's assets, which included his controlling interest in a partnership that held shares in the S corporation jointly owned with our client.

Because shares in the S corporation were not publicly traded, we worked with the receiver to set a value on the shares. Sensitivity had to be paid to securities laws, since any public sale of those shares would trigger disclosure requirements and potential liability to the seller.

For these reasons, we were not in a position to ask the receiver to sell the shares on the open market. Rather, we asked the receiver to make a determination of the value of the shares and then we presented that valuation to court, on notice to all of the shareholders (i.e., our client and his business partner). The court approved the suggested valuation, shielding the receiver from liability, and allowed a sale of the shares to proceed. Our client then stepped forward as an interested

Confidentiality Agreements and Corporate Counsel

The NYSBA Committee on Professional Ethics recently addressed an attorney's post-employment confidentiality obligations; in this case, the obligations of lawyers employed in an internal corporate legal department. (N.Y. St. Bar Ass'n Comm. on Prof. Ethics Op. 858 (2011)).

Confidentiality agreements are oftentimes necessary to protect trade secrets or other sensitive business information. A general counsel who was required to sign a confidentiality agreement asked the ethics committee whether his signing might somehow restrict the ability of staff attorneys to practice law if they left their current employment.

The committee answered this question: No. As stated by the committee, a corporate counsel licensed in New York may sign a confidentiality agreement governing post-employment conduct, even if the agreement arguably extends the latter's confidentiality obligations to information not otherwise protected as confidential under the Rules of Professional Conduct. But such an agreement is ethical only if it contains a "savings clause" that makes it clear that the lawyer's confidentiality obligations do not restrict the lawyer's right to practice law after termination and do not expand the scope of the lawyer's duty of confidentiality under the Rules.

The general counsel's concern related to New York Professional Rule of Conduct 5.6(a), which states that a lawyer may not offer or make an "agreement that restricts the right of a lawyer to practice after the termination of the relationship, except an agreement concerning benefits upon retirement. . . ." This rule is rooted in the policy of protecting a client's right to choose its lawyers freely. Despite this policy, there is no reason why a lawyer cannot be bound by a properly worded, or properly construed, confidentiality agreement. A contractual obligation separate from an attorney's ethical obligations may add a degree of protection and a means of recourse if necessary.

The confidentiality agreement considered in the ethics opinion blocks employees from disclosing or using information designated as "confidential" by the employer. It also extends indefinitely the protection of trade secrets and for two years as to other confidential information, while excluding previously acquired information, public knowledge, information available from other sources, and disclosure required by court order. The agreement addresses the potential conflict between Rule 5.6(a) and the interests of the client by including a "savings clause." The "savings clause" states as follows:

> *If I am a licensed attorney, this confidentiality provision is not meant to restrict my right to practice law, after I cease to be an employee, in violation of the applicable rules of professional conduct (such as Rule 5.6 or its equivalent), and the confidentiality provision shall be interpreted to be consistent with all such rules. The confidentiality provision shall not expand the scope of my duty to maintain privileged or confidential information under Rule 1.6 [defining confidential information], Rule 1.9 [governing use and disclosure of confidential information of former clients], or other applicable rules of professional conduct.*

The opinion noted that for practical purposes, the broad definition of confidential information in Rule 1.6 would likely not be exceeded by most confidentiality agreements.

Although the opinion expressly refrains, as it must, from discussing the enforceability of the confidentiality agreement, it resolves any ethical concerns about subjecting counsel to such agreements.

If you have a question about confidentiality agreements, contact John G. Schmidt Jr, Partner in the Phillips Lytle Business & Commercial Litigation Practice at (716) 847-7095 or jschmidt@phillipslytle.com, or Ryan Pittman, Associate, at (716) 504-5792 or rpitman@phillipslytle.com. ■

Judgment Debtor's Assets

purchaser and an agreement was quickly reached to apply the judgment against the business partner to the purchase price of the shares.

One last step remained, though. New York law requires a written document to reflect the sale of a security. In order to fully shield all parties from liability, we asked the court to appoint the receiver to also act as a referee – a court-appointed officer with designated powers – who would approve the sale of the shares and sign the necessary paperwork.

Careful planning and creative use of New York's procedural rules allowed us to quickly and cost-efficiently obtain control over valuable assets for our client, while simultaneously protecting against any potential liability from the transaction.

This article was prepared by Alan J. Bozer, Partner in Phillips Lytle's Business & Commercial Litigation Practice. To learn more about referees and receiverships, contact Alan at (716) 504-5700 or abozer@phillipslytle.com. ■

Phillips Lytle has one of the largest Business & Commercial Litigation teams in Upstate New York. Covering every corner of New York State, our attorneys have extensive experience in all phases of disputes, including banking, contracts, sales and product distribution, services, financing, construction, insurance coverage, joint ventures, employment, franchising, licensing, leasing, real estate finance and development, trusts, shareholder and partnership disputes and contract disputes.

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