DechertOnPoint

July 2010 / Special Alert

A legal update from Dechert's White Collar and Securities Litigation Group

Know Your Lawyer: *Gucci v. Guess?*

When a party to a litigation asserts the attorney-client privilege, many issues can arise: Was the lawyer rendering legal advice? Were the circumstances such that the parties had a reasonable expectation of confidentiality? Has the privilege been waived by disclosure to a third party? But one issue that does not usually arise is "Was the lawyer in fact authorized to practice in some jurisdiction?" In a recent decision, one Court resolved the issue of what happens when the answer to that question is "no" by rejecting a litigant's assertion of privilege. *Gucci America, Inc. v. Guess?, Inc.*, 09 Civ. 4373 (SDNY June 29, 2010).

In a trademark dispute with Guess, Gucci asserted privilege with respect to email communications of its in-house counsel, Jonathan Moss, and described those communications in a privilege log. During his deposition, Moss revealed that he had voluntarily converted his membership in the California bar to inactive status some years earlier (as it subsequently transpired, prior even to being hired by Gucci). This prompted Guess to insist that the withheld documents were not properly subject to privilege, and Gucci to seek a protective order. Magistrate Judge James Cott of the Southern District of New York decided on June 29, 2010 that Gucci was not entitled to assert the attorney-client privilege.

First, Magistrate Judge Cott analyzed the parameters of the privilege and determined that, under any recognized formulation, the privilege applied only to communications with a lawyer who was authorized to practice in some jurisdiction. Moss was still a member of the California bar—albeit an inactive one—but California does not permit inactive members of the bar to practice. Nor did the fact that Moss had retained his membership in various federal bars help, because active membership in some state bar was a prerequisite to membership in those bars, and Moss was "constructively suspended" from practicing in federal court for so long as he was ineligible to practice in California.

This did not end the inquiry, however, because under recognized precedent, the privilege applies to communications between a client and one the client reasonably, but mistakenly, believes to be an attorney, *United States v. Boffa,* 513 F. Supp. 517 (D. Del. 1981). Since there was no doubt that Gucci in fact believed that Moss was an attorney, the question became whether that belief was reasonable. Magistrate Judge Cott held that it was not.

While it was not clear from the record whether Gucci had originally hired Moss to do legal or non-legal work, it was clear that it rapidly promoted him to legal positions, including director of legal services and, most recently, Vice President, Director of Legal and Real Estate. Gucci permitted Moss to represent himself as its attorney in a variety of contexts, including trademark applications, lease negotiations and litigations. Yet, according to the court, the record was "devoid of evidence" that during his eight-year tenure, Gucci

ever checked his background or even asked him whether he was authorized to practice law. As Magistrate Judge Cott expressed the standard, once Gucci placed Moss into a legal position:

> Gucci was obligated to conduct *some* due diligence to confirm his professional status as an attorney to ensure that he faced no disciplinary or administrative impediment to engaging in the practice of law. It could not simply rely on representations that Moss made to the company, or the fact that he "held himself out" as an attorney. Minimal due diligence includes confirming that Moss was licensed in *some* jurisdiction, that the license he held in fact authorized him to engage in the practice of law, and that he had not been suspended from practicing, or otherwise faced disciplinary sanctions.

In reaching this conclusion, Magistrate Judge Cott relied heavily on the ten-year old opinion of Magistrate Judge Ellis in *Financial Technologies International, Inc. v. Smith,* 2000 WL 1855131 (SDNY Dec. 19, 2000), which addressed virtually the same set of facts. Magistrate Judge Ellis, recognizing that the issue was one of New York law, but that the New York Court of Appeals had not decided it, surveyed relevant state and federal sources in deciding the question. The *Smith* decision distinguished three situations in which the result would, or at least could, be different:

- When the in-house counsel is not admitted to the bar in the state where the company is located, but is admitted and authorized to practice in another jurisdiction, then there is precedent supporting the proposition that the company may rely on the counsel's admission elsewhere. *Georgia-Pacific Plywood Co. v. United States Plywood Co.,* 18 FRD 463 (SDNY 1956) (applying the privilege where house counsel was licensed in another state but expressly declining to reach the question whether it would apply when counsel was not licensed anywhere). *Accord, Panduit Corp. v. Burndy Corp.,* 172 USPQ 46 (ND Ill. 1971) (New York attorney employed in-house in Connecticut but not licensed in Connecticut within privilege).

- An individual client, of course, is unlikely to have "in-house" counsel, and Magistrate Judge Ellis recognized that an investigation into the status of an attorney, while "not unduly burdensome for a corporation," could "prove onerous for an individual seeking legal advice." Thus, he concluded, when an individual claims to have reasonably believed that his attorney was authorized to practice, "a layman cannot be expected to understand the complexities of the law regulating the practice of law; the sanction for illegal practice is more appropriately applied against the 'lawyer' " (quoting treatise on New York practice).

- Neither *Gucci* nor *Smith* addresses the question of the company that claims reasonably but mistakenly to have believed that its outside counsel was authorized to practice somewhere. As Magistrate Judge Ellis put it, "[t]he Court notes that there may be somewhat different considerations when hiring outside counsel, but that situation is not presented here."

Whether the result in *Gucci* will stand up to further litigation or to the scrutiny of other courts might well be questioned because the outcome seems harsh and visits the attorney's failure on his client. The decision is subject to appeal to a number of levels before it becomes set in stone. Nonetheless, whether it remains in force, the decision identifies a trap for clients that should be avoided. The resources of the internet have made it much easier to determine whether counsel—inside or outside—is authorized to practice, and many individuals are as well positioned to deploy those resources as any corporation. The ease with which such information is available may render courts less sympathetic to a claim of ignorance by a client with respect to their attorney's bar status. As a result, all clients, and especially employers of in-house lawyers, would be well advised to be sure that they know their lawyer—and that their lawyer is, indeed, currently authorized to practice law in some jurisdiction.

■ ■ ■

This update was authored by William K. Dodds (+1 212 698 3557; william.dodds@dechert.com), Robert J. Jossen (+1 212 698 3639; robert.jossen@dechert.com), and Claude M. Tusk (+1 212 698 3612; claude.tusk@dechert.com).

Practice group contacts

If you have questions regarding the information in this legal update, please contact one of the attorneys listed or the Dechert attorney with whom you regularly work. Visit us at www.dechert.com/securities.

If you would like to receive any of our other *DechertOnPoints*, please click here.

Catherine Botticelli
Washington, D.C.
+1 202 261 3368
catherine.botticelli@dechert.com

Stephen D. Brown
Philadelphia
+1 215 994 2240
stephen.brown@dechert.com

G. Eric Brunstad, Jr.
Hartford
+1 860 524 3960
eric.brunstad@dechert.com

Robert A. Cohen
New York
+1 212 698 3501
robert.cohen@dechert.com

David C. Chu
Hong Kong
+852 3518 4778
david.chu@dechert.com

William K. Dodds
New York
+1 212 698 3557
william.dodds@dechert.com

Michael S. Doluisio
Philadelphia
+1 215 994 2325
michael.doluisio@dechert.com

Joseph F. Donley
New York
+1 212 649 8724
joseph.donley@dechert.com

Steven A. Engel
Washington, D.C.
+1 202 261 3403
steven.engel@dechert.com

Steven B. Feirson
Philadelphia
+1 215 994 2489
steven.feirson@dechert.com

Michael J. Gilbert
New York
+1 212 698 3886
michael.gilbert@dechert.com

Robert C. Heim
Philadelphia
+1 215 994 2570
robert.heim@dechert.com

Frederick G. Herold
Silicon Valley
+1 650 813 4930
frederick.herold@dechert.com

David S. Hoffner
New York
+1 212 649 8781
david.hoffner@dechert.com

Nicolle L. Jacoby
New York
+1 212 698 3820
nicolle.jacoby@dechert.com

Robert J. Jossen
New York
+1 212 698 3639
robert.jossen@dechert.com

Michael L. Kichline
Philadelphia
+1 215 994 2439
michael.kichline@dechert.com

David A. Kotler
Princeton
+1 609 955 3226
david.kotler@dechert.com

Cheryl A. Krause
Philadelphia
+1 215 994 2139
cheryl.krause@dechert.com

Matthew L. Larrabee
San Francisco
+1 415 262 4579
matthew.larrabee@dechert.com

Thomas H. Lee II
Philadelphia
+1 215 994 2994
thomas.lee@dechert.com

Andrew J. Levander
New York
+1 212 698 3683
andrew.levander@dechert.com

Daniel C. Malone
New York
+1 212 698 3861
daniel.malone@dechert.com

Kathleen Massey
New York
+1 212 698 3686
kathleen.massey@dechert.com

Edward A. McDonald
New York
+1 212 698 3672
edward.mcdonald@dechert.com

Gary J. Mennitt
New York
+1 212 698 3831
gary.mennitt@dechert.com

Kevin J. O'Brien
New York
+1 212 698 3697
kevin.obrien@dechert.com

Charles I. Poret
New York
+1 212 698 3532
charles.poret@dechert.com

Neil A. Steiner
New York
+1 212 698 3822
neil.steiner@dechert.com

Adam J. Wasserman
New York
+1 212 698 3580
adam.wasserman@dechert.com

Benjamin E. Rosenberg
New York
+1 212 698 3606
benjamin.rosenberg@dechert.com

Claude M. Tusk
New York
+1 212 698 3612
claude.tusk@dechert.com

www.dechert.com

U.S. Austin • Boston • Charlotte • Hartford • New York • Orange County • Philadelphia Princeton • San Francisco • Silicon Valley • Washington, D.C. • **EUROPE** Brussels Dublin • London • Luxembourg • Moscow • Munich • Paris • **ASIA** Beijing • Hong Kong