

2014 IN-HOUSE PLAYBOOK



The 2014 Q3 In-House Playbook provides guidance for legal departments around topical developments and emerging best practices. The issues covered include privacy and data security, going global, and the legal ecosystem. The report will be distributed to ALM's list of corporate counsel and will be made available to in-house counsel throughout 2014 and updated quarterly.

Privacy Group Wants FTC to Probe Facebook 'Experiment'

'The experiment was simply a matter of product-testing research that was 'poorly' communicated to users'

SHERYL SANDBERG
Facebook



Sheryl Sandberg, Facebook chief operating officer

JOLANDA FLUBACHER

SACRAMENTO — Facebook Inc. is defending its privacy practices after recent revelations that it altered some users' news feeds in 2012 to gauge their emotional responses.

Researchers with Facebook and Cornell University reported in the June 17 issue of the Proceedings of the National Academy of Sciences of the United States of America that for one week they had reduced the number of "positive" or "negative" posts almost 700,000 users received. According to the study, those who saw less positive content expressed more negativity in their status updates. The reverse was true for those who viewed less negative posts.

Facebook did not alert the targeted users to the experiment.

"The company purposefully messed with people's minds," the Electronic Privacy Information Center wrote in a complaint filed with the Federal Trade Commission. EPIC contends the altered posts amounted to manipulation and a deceptive trade practice. The group also says Facebook violated a 20-year consent decree requiring the Menlo Park company to protect its users' privacy.

EPIC has asked the FTC to make Facebook's news feed algorithm public. The complaint letter carries no legal weight and is one of many that EPIC and other privacy and consumer groups have filed with the FTC over the actions of social media and Internet search companies.

Facebook COO Sheryl Sandberg told a gathering of advertisers in India that the experiment was simply a matter of product-testing research that was "poorly" communicated to users, according to media reports.

A statement released by Facebook noted that users acknowledge in the terms of service that data collected by the company can be used for research.

"To suggest we conducted any corporate research without permission is complete fiction," the statement said.

But whether Facebook sought users' consent for the particular experiment is another question. Without commenting specifically on the Facebook matter, the American Psychological Association said in a statement on its website that most research projects require informed consent under its code of ethics. Informed consent, the association said, requires researchers to, among other things, explain the purpose of their study and to provide contact information for participants with questions.

Scott Kamber, managing partner of KamberLaw and counsel in the Facebook Beacon litigation, said that he knew of no pending litigation tied to the recently revealed experiment.

"Because of [Facebook's] terms of service, [it] may not be a great case," Kamber said.

— Cheryl Miller, *The Recorder*



GAJ RUDOLF

The GC: Being a Legal Adviser Is Just a Starting Point

The last few years have brought big changes for general counsel, and for many a rise to a role of greater prominence within their companies. Audit, tax and advisory firm KPMG has updated a report it first issued in 2012 based on a telephone survey with general counsel around the world, which showed that GCs are shifting from being strictly legal advisers to being business advisers too.

KPMG followed up on that data by conducting a series of new interviews with GCs from large corporations in North America, Asia-Pacific and Europe, to find out what challenges they are facing. The resulting report, “Over the Horizon: How corporate counsel are crossing frontiers to address new challenges,” shows that GCs are increasingly involved in commercial decision-making, particularly when it relates to risk management.

“At a minimum, a law department tries to help the company to obey the law; general counsel in our survey said that even better is for the law department to help the company to obey the law while achieving its strategic objectives,” KPMG forensic partner Bryan Jones told CorpCounsel.com.

One major driver behind the general counsel’s growing menu of responsibilities is the growing regulatory pressure on an array of fronts. The report cites a KPMG International survey from 2013, which found that 60 percent of general counsel saw regulatory pressure from governments around the world as the greatest risk they faced. Many of KPMG’s 2014 interviews with GCs support this statistic.

Sandeep Sharma, regional general counsel for Asia-Pacific for pharmaceutical company Merck & Co., told KPMG that his company has been feeling the difference. “The culture of the company has been changing dramatically in the past four to five years,” he said. “The importance of compliance has grown.”

Since many companies, including those discussed in the report, do business beyond U.S. borders, general counsel must not only manage ever-increasing compliance challenges under U.S. law, but also deal with a growing regulatory burden in other jurisdictions. And the challenge may be about more than just finding good attorneys who understand legal and regulatory standards in other nations. “One general counsel in our survey expressed confidence in finding attorneys who know the law in any jurisdiction; the challenge is understanding the difference in mentality, business customs and perceptions—how people see the world, how people see the business environment, how they see their social environment—the customs of doing business on an everyday basis,” said Jones.

Whether the regulations are domestic or international, it helps if general counsel can see around corners, or at least attempt to do so. The general counsel in the KPMG report have had varying amounts of success in predicting what their regulators will come up with next. John Collins, deputy general counsel of the Royal Bank of Scotland Group plc, for example, said that he and his team like to scan the horizon for new regulatory trends, and managed to predict a focus on antimoney-laundering regulations in the early 2000s, and a shift after that toward bribery and corruption regulations.

However, others in the report noted that regulators had not been so predictable. “The regulations are growing, but they are continually running behind business trends, so it’s difficult to bridge the gap,” said Shantini Sanmuganathan, deputy general counsel of Singapore Telecommunications Limited, a Singapore-based international company.

Jones said that while looking at developments in the U.S. and European Union, the two regions that tend to set the tone for regulations globally, can be helpful for companies that want to look ahead, it’s a mistake to expect GCs to become regulatory prognosticators. “There is a limit to what general counsel can do to anticipate legal and regulatory developments,” he said.

Compounding the growing risk caused by regulation are the emerging cyberthreats to the enterprise that GCs are often tasked with mitigating. According to Jones, KPMG Forensic has observed that “the computer is the crime scene of the 21st century.” It’s rare, he noted, to see an economic crime that doesn’t involve the use of technology.

The report explains that cybersecurity appears to be growing the fastest on general counsel’s long list of risk concerns. Several of the GCs interviewed believed that human error and intentional wrongdoing pose the greatest data risk. “People can get on the network and then walk out the door with a USB key, and it’s very difficult to police if it is inappropriate, particularly when we encourage folks to work from home,” Karen Linehan, general counsel of pharmaceutical company Sanofi, told KPMG. “There is a need for periodic review to ensure that excessive downloading isn’t happening.”

According to Jones, the general counsel is well positioned to help the rest of the company understand that data risk and cybersecurity are not just matters of safety, but can have a profound impact on the bottom line. “There needs to be a business imperative,” he said. “It has to be imperative to the organization to take the steps that are needed to address the cyberchallenge.”

California Is Named the U.S. Capital of Cyberattacks



California suffers more cybercrime attacks than any other state, and general counsel there need to help lead the charge in fighting it, according to attorney Jeremy Matz.

“When it comes to cybercrime, California has the dubious distinction of being one of the top targets in the world,” Matz told CorpCounsel.com. The former federal prosecutor is a principal with Los Angeles-based litigation firm Bird Marella, where he counsels businesses and individuals affected by cybercrime.

Because the state and its Silicon Valley are at the center of the digital revolution, California Attorney General Kamala Harris in February issued a guide for businesses, “Cybersecurity in the Golden State.” But its advice could be useful for companies anywhere.

Matz explained that the increasing cybercrime in California is also occurring nationally and internationally. He said one trend is that hackers are spreading out around the world. “Asia, particularly China, are still the hotbeds,” he said, “but we’re seeing more hacking originating in African countries like Nigeria, along with eastern Europe, the Ukraine and Russia.”

Another trend, he noted, is the increasing interconnection between cybercrime and virtual currencies like bitcoin. “These kind of digital currencies are tailor-made for hackers,” he explained. “There’s no government control, no way to track it. So the best way to translate a stolen thing into money is digital coin.”

Matz said that general counsel can play an important role in making a company proactive in the cyberbattle against hackers. “The general attitude of

companies should not be ‘if’ but ‘when.’ They need to assume that they are a prime target.”

And once attacked, a key decision for companies, especially publicly traded ones, is how and when to disclose to regulators and victims. California was the first state to pass a law requiring data breach notification in 2003.

But Matz notes that “there can be valuable and legitimate reasons to hold off a little bit on making [a public] disclosure, as long as you notify law enforcement and your regulators. Law enforcement can often have greater success tracking perpetrators as long as they don’t know that the company is on to them yet.”

He highly recommended that businesses hire a specialized cyberfirm to assist in security precautions as well as in damage control after a breach occurs. “Law firms can help,” he said, “but cyberfirms are invaluable.”

California’s cybersecurity guide for business echoes Matz’s advice on being proactive. Among its suggestions:

- Assume you are a target;
- Lead by example: “executive management has to get involved”;
- Map and encrypt your data;
- Defend yourself by seeking out comprehensive security solutions from firewalls to antivirus programs to multilayers of defensive technology;
- As the first level of defense, train employees to understand cyberrisks;
- Plan for the worst and have a trained response team ready when a breach occurs.

— Sue Reisinger, Corporate Counsel

General Counsel Recalculate the Bottom Line

The “do more with less” mandate is one many general counsel have been hearing a lot about for a long time now. But how are they putting that concept into practice?

In a recent webinar, “Bottom Line Remains Top of Mind: The Changing Role of the Legal Department,” two busy GCs—Mark Smolik, GC and chief compliance officer at DHL/Exel Inc., and Tim Phillips, GC of the American Cancer Society Inc.—weighed in on how they are using resources intelligently in a corporate climate where the legal department itself is both evolving quickly and playing a greater role in the overall business. The webinar was presented by the Consero Group, which develops invitation-only events for senior executives in legal and other industries.

Both Smolik and Phillips explained that they are facing challenges and mandates to run the legal function more like the rest of the business, which means using human and financial resources in the most efficient way possible. “We find ourselves year in, year out, looking at the composition of the legal team and trying to determine how we can do more with less,” said Smolik.

One of the solutions Smolik has leveraged is outsourcing work to nonlawyers, specifically for contracts with customers. He found that the number of these agreements his department was handling had ballooning to about 1,500 per year. At the same time, adding new lawyers to the staff was becoming “cost prohibitive.”

He decided to reach outside the organization by sending the contract work to commercial project managers, which allowed his own team to focus more on traditional legal department duties. “The feedback from the finance team, particularly our CFO, with regard to the ability to deliver the service at a significantly lower cost has made the budget process much, much easier,” he said.

Phillips has used similar strategies to meet his own organization’s challenges. The American Cancer Society, he explained, recently moved its model from a federation of legally discrete organizations operating under one charter to a single entity. At the same time, the organization is trying—as it always has—to save precious dollars to apply to cancer research rather than legal costs.

Like Smolik, Phillips found that his legal team was spending a lot of time on contracts, particularly those connected to the organization’s fundraising events. He chose to use the society’s procurement function to redirect most of this work to contract specialists. He said that if there is a question about a specific provision, his attorneys are always available to help.

Sometimes lawyers need to be in the picture, specifically outside attorneys. When he joined DHL/Exel five years ago, Smolik brought along the idea of using a process similar to employee performance reviews to evaluate the company’s outside lawyer partnerships.

He set out to rate using a clear, well-defined set of criteria, taking into consideration business objectives, level of expertise, responsiveness to DHL’s needs, and more. Like company employees, each outside firm is scored numerically on each criterion, and the score is tallied up. The legal department will then look at which firms are above the cut-off point of 3.0.

“If you’re above that line, you’re doing really well. In fact, if you’re at that line you’re doing very well,” Smolik said. “But if you’re below the line, there’s reason for us to reevaluate what is really driving that below-standard performance.” The department meets or speaks with each of its firms to discuss results and give a performance review.

This approach has helped Smolik make major changes in the way his company uses outside counsel. Since he started the process, his department has gone from using 380 outside firms to 40. He explained that the process has helped him lower outside counsel fees by learning which firms to invest in, and provided DHL with some helpful data. “We found that the firms that were performing the poorest were the multinational large law firms, so we started gravitating toward regional and smaller firms,” he said.



How have the law firms taken to getting evaluated this way? Smolik noted that it has made them more engaged and more competitive, which works out well for the legal department.

Phillips also saw the need to cut down the number of law firms his department uses after the American Cancer Society was restructured. Some of the affiliates that joined the organization had no in-house attorneys on staff, so they had been using outside counsel. The situation, as Phillips put it, was “unmanageable.” He is in the process of shortening the list of law firm providers and is developing an evaluation system, like Smolik’s, of key performance indicators.

Phillips emphasized the importance of using law firms that embrace a sense of partnership with his organization. “We expect that our service providers will, in effect, be a part of our mission,” he said. “That is a strong ethos that we carry throughout the society, and we want that to extend to our outside partners.”

General counsel also have to determine how they can get the best performance from their own in-house lawyers while proving the value of legal to other business units.

When Phillips started at the American Cancer Society, he brought his legal department, made up of lawyers from several consolidating organizations, together by defining three principles to operate by. The first was responsiveness: If someone reaches out to an American Cancer Society in-house attorney, they should expect to hear back within a reasonable amount of time.

The second was collaboration: alignment with, and not against, the client. “Too often lawyers are perceived as a barrier, as a ‘department of no,’” Phillips said. “I didn’t want to create a group of ‘yes persons,’ but by the same token, I wanted the team to drive toward real and actual collaboration with partners on the mission side of the organization.”

To help meet his third principle, proactivity, Phillips asked his team of lawyers to get out of their offices and invite themselves to meetings in other areas of the organization. The results, he said, have been more engagement with the rest of the organization, and better and earlier support for initiatives from colleagues outside of legal.

“I am now receiving calls from functional heads saying: ‘Your lawyers are very much engaged with my organization, I really appreciate it,’” said Phillips.

Tech Companies Unite to Combat Patent Trolls

More than 60 percent of patent litigation in 2012 was initiated by trolls, up from 20 percent in 2006.



ILLUSTRATION BY DAVID SARACINO

With patent reform at a standstill in the U.S. government, technology companies have banded together to fight intellectual property abuses by trolls.

As Liz Gannes explains on re/code, Google Inc., Canon Inc., SAP AG, Newegg.com Inc., Dropbox and Asana have nearly 300,000 patent assets on the line. Instead of licensing all of each others' patents, they joined the License on Transfer (LOT) Network, promising to grant licenses to one another whenever one of their patents is sold. Gannes says the goal is to "defang patents" before they get into the hands of trolls.

Google legal director Eric Schulman led the initiative. Gannes says Schulman is especially concerned over research showing that more than 60 percent of patent litigation in 2012 was initiated by trolls, up from 20 percent in 2006.

Gannes says the defendants in many of these cases are often the very companies that paid for the research and development that gets patented in the first place.

Although companies have joined together on patents before, she says LOT is different because it's portfolio-wide and only applies to patents that are transferred. As a result, participating companies can still use their patents against each other while they own them.

— Sherry Karabin, Corporate Counsel

Inside a Law School's In-house Training Program

Five years ago when I joined the SMU Dedman School of Law as director of career services, I noticed that some law schools were starting to offer classes on in-house practice. As a former general counsel, I thought that such a class would make sense here—business law is one of our strengths, and many corporations are headquartered in Dallas-Fort Worth. So I created an upper-level class called “The Role of the General Counsel,” which proved very popular. Offered in the fall and spring semesters, the class always exceeded its 45-seat capacity. In-house counsel at area corporations were invited to guest lecture in certain classes.

As a result of teaching the class, however, I realized that the in-house world is virtually unknown to law students. In addition to teaching them about legal and ethical issues facing inside counsel, I wanted to give them a glimpse of what in-house lawyers actually do. And I found a partner in my mission—Marc Steinberg, the Rupert and Lillian Radford Professor of Law. Together, we designed an academic program combining a corporate counsel class with externships in corporate legal departments.

We proposed our idea to the curriculum committee, and it was approved at the end of 2012, giving us very little time to recruit corporations to participate and to take student applications. But we made it. The Corporate Counsel Externship Program was launched in fall 2013 with 30 companies hosting students: American Airlines; AmerisourceBergen Specialty Group; AT&T; Baylor Health Care System; CLMG/Beal Service Corp.; Commercial Metals Company; Crosstex Energy Services LP; Dean Foods Company; Denbury Resources Inc.; Dr. Pepper Snapple Group; Fluor Corporation; Fossil Group Inc.; G6 Hospitality LLC; Hewlett-Packard Company; Interstate Batteries; Le Duff America Inc.; Lennox International Inc.; Sky Chefs Inc. d/b/a LSG Sky Chefs; Michaels Stores; Mothers Against Drunk Driving; NACCO Industries Inc.; NTA Life Insurance Company; North Texas Tollway Authority; Orix USA Corporation; RealPage Inc.; Reddy Ice Holdings Inc.; SMU Office of Legal Affairs; Summit Midstream Partners LLC; The Beck Group; and Zale Corporation.

Steinberg serves as director of the program, and I am the faculty supervisor.

In the weekly classroom component, students learned about different substantive areas of the law encountered in an in-house practice, such as corporate governance practices, intellectual property, employment law and securities filings, as well as the ethical responsibilities of in-house counsel. Other classes focused on practical skills, such as working with outside counsel, conflicts of interest, litigation management, contract drafting and conducting internal investigations. As with the “Role of the General Counsel” course,



corporate counsel served as guest lecturers in certain classes. For example, Gary Kennedy, the former general counsel of American Airlines, taught a class on conducting internal investigations, while John Torres and Betty Ungerman, the chief legal officer and deputy general counsel of Lennox International Inc., taught students about working with outside counsel and contracts.

Each student was assigned to a “field supervisor” at his or her placement. These seasoned attorneys oversaw and trained the externs and evaluated their legal skills, professionalism, quality of work and responsiveness. Steinberg remarked, “We are extremely grateful to the field supervisors for their support of the program. These attorneys are incredibly busy, yet took time away from their practices to work with our students. There is no academic substitute for the experience our students had this semester. The training and feedback they received from accomplished attorneys on real-world projects will benefit them immensely when they start practicing law.”

Externs’ projects and experiences were as broad and varied as the different companies participating in the program. As an example, one student assisted attorneys with a credit agreement and observed the agreement evolve from the first draft to the closing. Another student worked on compliance checklists and schedules, allowing her to delve into regulations governing public companies and to review the company’s policies for compliance. A different student worked on a project involving both legal and accounting is-

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sues. As a CPA, she said that the project allowed her to learn about how the legal and accounting departments within the company worked together to formulate an approach to solving the issues.

The program served as a capstone learning experience for many students. Stacy Phillips, a third-year student assigned to Reddy Ice Holdings Inc., described the experience as the “icing on the cake” of her legal education. “Property law was my Achilles’ Heel in law school because I really didn’t have a frame of reference for any of the topics we covered,” she said. “It all suddenly made sense after working on a project involving real estate titles, title insurance policies and land survey plats.”

The extern at Interstate Batteries, Jeff Connor, said, “My biggest learning experience was drafting a contract from scratch. I feel fortunate because most law students do not get this opportunity. It certainly opened my eyes to how much I do not know just yet. But I gained confidence when I successfully finished the contract, with a lot of guidance from [Interstate general counsel] Chris Willis along the way.”

Looking back now, I realize there were many side-benefits to the program beyond the legal knowledge the students gained. These students will be at an advantage when they are first-year associates at law firms because they will better understand what qualities and services corporations are looking for when they select outside counsel. As John Torres with Lennox explained, “This program is going to give the law students an opportunity to see the dynamics of that buy-sell relationship. The purchaser’s point of view is not entirely the same as the seller’s point of view.”

Students also developed valuable practical skills. Externs shadowed attorneys, watching how they conducted themselves in meetings, communicated with outside counsel and opposing counsel and interacted with clients. Will Murchison, the extern at Michaels Stores, said, “I enjoyed sitting in on the contract negotiations. The experience was unique, and I felt I gained insights on how to hold myself in a professional, but adversarial, setting.”

One of the highlights of this program for me was watching our students develop professionally and gain an appreciation of “soft skills” that I did not learn until much later in my legal career. Students were often included in office lunches, birthday celebrations and, in the case of Murchison, an office Halloween costume contest and parade. These activities helped students learn the importance of teamwork and workplace culture, and they met other in-house attorneys and their business colleagues.

Benjamin Perez, a third-year student placed at the North Texas Tollway Authority, says that the program gave him “a practical experience that is unmatched with anything that I could have learned in the classroom,” and was “hands down the best experience throughout my law school career.” He added that one of his biggest challenges was “learning to use the telephone instead of sending out emails when communicating with different busi-

ness clients. As a student, I am so accustomed to sending texts and emails, and I didn’t realize that in-house lawyers conduct so much of their work over the phone.”

Tyler Hokanson, a law student interested in real estate, externed with the Dallas construction and development firm The Beck Group. He said the program gave him insight into the political realities of a small legal department. “It has given me perspective on how an inside lawyer should interact with his client in order to preserve credibility and influence,” he said. “My most valuable learning experience was hearing many of the real-world experiences of Tonya Johannsen, the general counsel, which has helped me to set my expectations for life as a lawyer.”

Another side benefit is that students may be more attractive to prospective employers. As a result of their externships, students had additional experience to list on their resumes. Most of the students worked on transactional matters; however, two externs interested in litigation were placed with companies where we knew they would be exposed to litigation matters.

The third-year student at Lennox, Anne Moretti, counts the relationships that she formed at Lennox as one of the reasons why the externship program exceeded her expectations. “Betty [Ungerman], John [Torres] and the other attorneys were all so willing to do everything they could to put me in touch with connections they had at firms,” Moretti said. “I am so thankful that they took the time to reach out to their connections on my behalf, and also that I had the opportunity to talk with so many of them to get their advice and learn about their legal careers.” The relationships that Moretti formed during her externship were instrumental in helping her to secure an associate position in the corporate section of a large firm in Dallas.

In addition, two externs who graduated in May have already secured in-house counsel positions with corporations that did not participate in the program.

Bryn Krough, the extern at Zale, says, “I was able to experience and be involved in the inner workings of a large public company, and this experience could not be matched by any other program. The Zale attorneys were very focused on ensuring that I gained as much benefit from the program as possible.”

Although the experience has come to an end for this group of students, SMU Dedman Law is offering the program again in fall 2014. This year, we are adding new classes on cybersecurity and commercial real estate leases, as well as new placements at the Dallas Cowboys Football Club, EXCO Resources Inc., Hunt Consolidated Inc., J.C. Penney Company Inc. and Kimberly-Clark Corporation.

Steve Yeager is the director of career services at SMU Dedman School of Law. Before joining SMU, he was general counsel of a financial services firm and an attorney at Jones Day in Dallas. He can be reached at syeager@smu.edu. Yeager and Marc Steinberg are co-authoring a book called Inside Counsel—Practices, Strategies and Insights.

— Steve Yeager, Corporate Counsel

THE RECORDER
LAW BUSINESS TECHNOLOGY

LEGAL DEPARTMENT OF THE YEAR 2014

— AN ALM SIGNATURE AWARDS SERIES —

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TIMELINE
Nominations Open - Jul. 7 | Nominations Close - Aug. 4 | Winners Announced - Sept. 19 | Awards Reception - Nov. 18

QUESTIONS?
Email associate editor James Cronin at jcronin@alm.com or call 415-490-9934





Small Business, Smaller Discrimination Risk

The smaller the company, the less likely employees are to face age and gender discrimination. Hywel Roberts of HR magazine in the U.K. reports on a new study that shows staff who work at companies with fewer than 50 people are 10 times less likely to face discrimination than those who work at larger companies.

The new information suggests that “10 percent of workers in companies with more than 50 staff or more face barriers due to their gender, compared to 1.3 percent in micro-businesses ... and small companies,” explains Roberts. He notes employees at smaller businesses also report never having witnessed age discrimination, whereas 20 percent in medium- to large-sized employers have seen or experienced it.

Where smaller companies can get into trouble is when they grow quickly and lose that “family feel.”

“Often in these circumstances it won’t feel like you have time to focus on HR issues,” Jessica Corsi, a partner in the new study, told HR. She notes that during rapid expansion, a business can lose its intimacy. And if just one employee feels discriminated against, the feeling can quickly spread throughout the staff. Though human resource matters may not seem as pressing as financing during a growth phase, it’s still an important area of focus.

— Marlis Silver Sweeney, Corporate Counsel

U.S. Patent Utility's Jon Ellenthal

Jon Ellenthal, CEO of Patent Properties, wants to create an ASCAP for patents. Just as the song-licensing entity generates ongoing royalties for musicians, Patent Properties is setting up the U.S. Patent Utility, which aims to generate a large volume of low-cost licenses for patents that aren't worth litigating, but still have economic value. The exchange, set to launch later this year, will machine-read all 2.1 million active U.S. patents and match small and midsize businesses with the 100 patents most statistically relevant to their product or service. For \$1,000 a month, the U.S. Patent Utility will obtain licenses for some of those 100 while offering insurance on others, plus intelligence about new applications and grants. The idea was conceived by Jay Walker, the founder of Priceline.com and chairman of Walker Digital and Patent Properties. We sat down with Ellenthal to talk about the company's plans.



Could you explain the thinking behind the patent utility? We are working on a really interesting economic problem. That is, how we are going to get many more of the 2-plus million patents that are active in the U.S. into the economy. Sixty percent of patents are owned by research labs, universities, independent inventors, small companies, yet they get less than 1 percent of all of the revenue that's collected.

Everybody is debating what to do about the 50,000 most valuable patents and how to optimize litigation and how to best split the pie. That's fine, but the real answer here comes from figuring out a voluntary and affordable way for the mass market of patent owners and users of patented technology to do business in a commercially sensible way.

And how do you propose to do that? We'll use natural language processing, semantic search, machine learning to tease out relationships between specifications of a product and the details of particular patents. We're going to determine the top 100 patents [for that product] and package them up into what we call a "no-fault package." No-fault reflects the fact that it's simply too expensive to argue about this stuff. Let's figure out a standard that we're both OK with. Let's price for it and let's see if we can provide a solution that will scale to the mass market.

Jay [Walker] has a lot of experience with business systems that embrace uncertainty in a way that allows things to happen. Priceline, while it looked like a new type of online consumer travel agency, from an economic standpoint it really was a product and pricing mechanism for perishable inventory. Airlines were looking to move their otherwise unsold airline seats in a way that was not destructive to their public pricing point. The consumer placed price above all else, so they gave up control over what airline carrier and even aspects of their itinerary. So embracing uncertainty in that way was vital to protecting the core business and retail pricing of the airlines.

How is that relevant to patents? We're recognizing that we have a patent-licensing system that primarily trades on a standard of legal certainty. Are you infringing or are you not infringing? For better or worse, the only place that you can mete that out is in federal court. That's wonderful if you happen to have a really high-value patent, a grand-slam or a home-run patent. But if you have a patent that is less valuable, not zero value but less valuable than the high transaction costs of going to court, then what do you do? You really have no place to go. So along comes an alternative, frankly, an inferior alternative, but one that is better than they have right now, which is nothing.

Will this lead to more lawsuits? This is a completely neutral platform, it will never sue anybody. In fact, it won't have standing to sue anybody because patent owners will keep control and ownership of their asset. They're just giving us a right of agency.

There are a lot of law firms willing to represent small inventors or nonpracticing entities, and the complaint from the perspective of the accused infringer is, 'These aren't quality patents, but because of the threat of litigation, we're going to settle out for a few thousand dollars.' So why doesn't that model serve these inventors? It does. Those patents that generate a return, that's one of the ways they've been able to generate a return. There are 2 million [other] patents that are completely outside the economy. ... If you have a litigation-or-bust patent-licensing environment, it may mean you sue, it may mean you just threaten to sue. That works against patent owners who can't afford that path. It also works against operating companies who frankly can't af-

ford to defend themselves even if the merits are completely on their side. We are trying to address that specific problem.

Whom do you expect to be your typical customers? On the patent owner side, we believe there is a portion of every patent portfolio that is suitable for listing in our Patent Utility. There are noncore patents, there are patents that don't justify the attention of someone in the tech-transfer office of a university, there are very large tech companies that have lots of patents that they don't have licensing plans or options for and we can be a solution for them too.

How is what you'll be doing different from a company like RPX? The first difference is in what customer we're seeking to serve. RPX is for big companies. We have sort of a private jet-only marketplace [for patents]. So the only way to travel is by private jet. If you can afford that, you're good with that. We need a Southwest Airlines option for all of those for whom private jet travel isn't an option. [And] we don't buy patents. They're a defensive consortium. We're in the middle.

There's no threat of litigation on your part, and the people who own the patents don't have the wherewithal to litigate. Doesn't there need to be some kind of stick to persuade companies to buy the licenses? You're correct that we've removed the stick from the patent-licensing dynamic and it's fair to ask how that plays out. The only reason someone's going to subscribe to our services is they conclude it puts their business in a better position, whether that means they can get access to licenses that are teachings they can learn from or if that means they feel better about how they're managing risk out there. Because even though a patent is owned today by a company that can't afford to enforce it, that doesn't mean that that patent might not change hands.

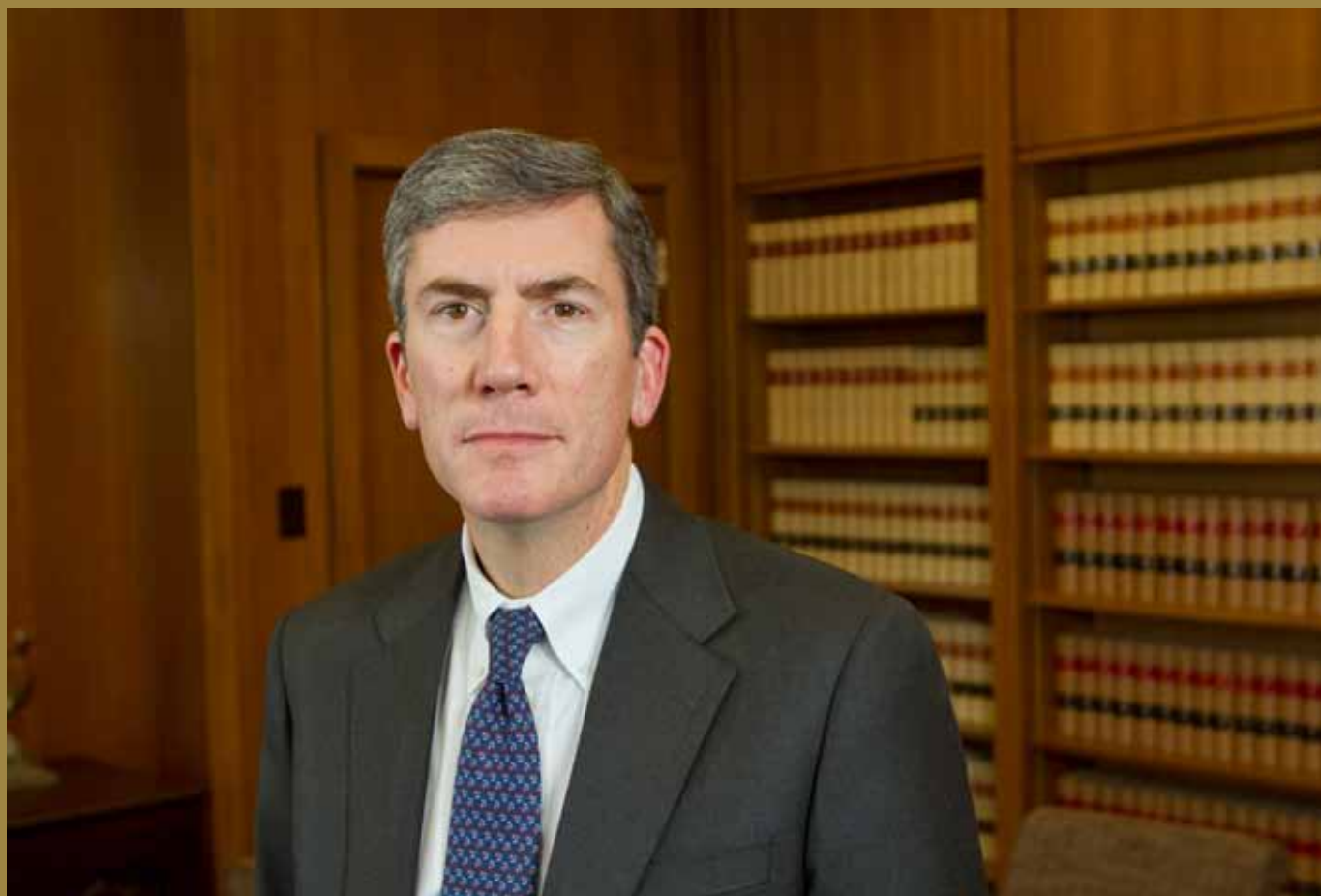
In your own materials you talk about patents often being deliberately written in a vague way. How is software going to cut through deliberate vagueness and obfuscation? Yes, it's hard. It's hard for a human to do as well. Especially since you have to wait for a judge to tell you what all that claim language means. Advances in data, science and machine learning are incredible. This is not going to be a keyword search where the word "coding" shows up in product line and patent and you have a match.

If the service becomes popular, would there be a concern that people would start trying to draft patents to the software, trying to game the software to get in that top 100? That would be a high-class problem if we got to that point. We're a long way off from even knowing what that behavior would look like.

Does it sound like ultimately you'd have algorithms replacing patent lawyers? I can't imagine that's the case. Our system doesn't have a natural enemy. This is not going to take away any litigation. This is actually going to create more demand for patents, not less. Once we can demonstrate that at least there is some income, perhaps enough to fund the ongoing maintenance fees and more, then I think this is actually going to lead to more [patent applications]. I think patent lawyers are going to like this very much. I think general counsels at small companies will like having a way to understand and manage risk when it comes to patents, and I think inventors will be thrilled to get their first dollars of patent-licensing revenue.

— Scott Graham, *The Recorder*

After serving on the Alameda County Superior Court for more than a decade, Judge Jon Tigar took a seat on the U.S. District Court for the Northern District bench last year. His docket quickly filled up with high-stakes patent disputes and cutting-edge privacy cases. In chambers featuring a poster of the 1966 Florida Western "Johnny Tiger" and other memorabilia befitting his surname, the judge recounted his path to the federal bench and imparted a few tips for the lawyers who appear before him.



S. TODD RODGERS

Jon Tigar: Northern District of California

After a long run in state court, what motivated you to be a federal judge? The federal court offered the chance to continue to apply the law and to serve the public, but with a bigger pool of resources and a diverse case mix. Just the variety by itself is a huge pleasure of the job.

Your father, Michael Tigar, is a distinguished lawyer. Did you always want to join him in the profession? When I got out of college, I didn't know what I wanted to do. I actually had interviewed in New York with some advertising agencies and accepted an offer. But while I was traveling after graduation, I realized that I didn't know that advertising was going to be a good fit for me after all. When I had finished traveling, a family friend said there was a job at Legal Aid in Los Angeles. So I worked there doing paralegal work, and then when the funding for that position ran out, I got a job in a private law firm. I loved both of those jobs. In the private law firm, I was involved in a very big real estate development dispute that was about to go to trial. I was living in a hotel, I was working all the time and I thought it was intoxicating.

Is there anything that has surprised you about work on the Northern District bench? I actually have a pretty good-sized chambers staff. I went from working with a research attorney that I shared with another judge in state court to being the managing partner of a small law firm. That's probably the thing about being a federal judge that I enjoy the most. Another thing that was a surprise was the extent to which everything that every federal judge writes immediately becomes part of the ongoing conversation about what the law is. In the state court, trial judges don't publish. When you issue an order, you're talking to the people in front of you, but you're not really shaping the law. The federal court is different.

What have you done to get up to speed on patent cases? I made a point of attending an advanced patent litigation symposium almost as soon as I started in the job. But I think

the bigger challenge in patent cases is in managing them as opposed to getting up to speed on the substantive law. Because there is a great deal of money at stake, the incentives for the lawyers are to use every tool available to them at all times on every issue, which is a long economics way of saying there's more fighting.

Technology cases sometimes center on laws that were adopted long before the devices at issue were introduced. How do you approach cases like that? With regard to patent cases, there is a large, specialized body of law coming out of the Federal Circuit, and the Supreme Court has also taken an active interest. So I think that the common law actually responds pretty quickly to issues in the technology world. It's also important to remember that while there is a common-law aspect to the way federal courts deal with technology, much of what we do depends on the statutes that are at issue. At the end of the day, real changes in the law that respond to emerging technology often have to come from Congress.

What was the best piece of advice you received in the transition? Something I was taught as a brand-new state court judge that I continue to think is important is to make sure that everyone who comes to your court feels heard. That can be a challenge given how many cases we all have. There's a little Post-it with this quote in my bench: "If one gives answer before hearing, it is folly and shame." I do think that keeping an open mind requires a quality of mindfulness.

What do you like to see from lawyers who appear in your courtroom? Sometimes lawyers are in a rush to put every argument they can think of in front of the court. For that reason, I will sometimes ask lawyers to make concessions that I think are compelled by the law or the record. Usually, the reason for doing that is to find out whether I can trust them. Acknowledging your weaknesses is simply a good way to build trust with the court.

—Julia Love, *The Recorder*

As counsel for Google Inc.'s \$1.3 billion renewable energy and alternative investment portfolio, Yana Kravtsova has helped the tech giant pour money into solar and wind projects around the state and around the globe. Kravtsova came to the legal profession back in her home country of Russia in the 1990s. "At that time it was a very dynamic field. The country was going through many political and economic changes and the legal system had to reform itself to meet the demands of a new society," she says. "I found that fascinating and wanted to be part of that change in the rules." When she moved to the U.S. and began practicing in Washington, D.C., she wanted to focus on transactional work, where she was drawn to the tangible impact. After practicing at firms for nearly a decade, she went in-house, joining First Wind as associate general counsel in 2010. She left for Google a year and a half later.



JASON DOIY

Google's Yana Kravtsova

What do you enjoy most about your work? I love that the renewable energy industry is constantly evolving. It's a very dynamic area that keeps me learning every day both legal and industry issues and that makes it interesting and intellectually challenging. On a personal note, I really enjoy working with our Google team—it's a smart and creative crew, people are very friendly and have a great sense of humor, so that makes your daily routine more fun.

From a legal perspective, how are the alternative investments like those you ink unlike other types of investing? Our investment portfolio is quite diverse. We have invested in some of the largest projects in renewable energy, in projects that utilize new financing structures and can be built because of such structures, in projects that deploy new technology at the commercial scale, in projects that are very early in their development and need backing to become a reality. So, we always look for factors to differentiate ourselves in the market.

Clean technology and climate change law are still evolving. What are some of the developments that you think are most important? I think that we will see technological breakthroughs in renewable energy—for example, smart homes, reliable long-term storage, smart grids, new sources of renewable energy—which will challenge the existing laws and regulations and will force revising the rules of the game as we know them now, both at the regulatory and consumer level. I also think that the

international political willpower will move eventually toward a carbon offset tax or other incentive regime to promote adoption of green sources of energy globally.

How big is your department? Google's legal department is over 800 people; about half of them are lawyers. The transactional team is only a part of our global legal department.

What work do you handle in-house, and when do you retain outside counsel? We retain outside counsel for deal negotiations and documentation drafting, while we focus on the earlier stages of the transaction and structuring and postclosing and portfolio management. We have preferred outside counsel but that list seems to fluctuate depending on the conflicts of interest that the firm or we may find ourselves in.

What's one word or phrase others would use to describe you? Savvy. I had to do a survey of my business team for that one.

Is there a recent book or movie you'd recommend? I am reading "The Art of Travel" by Alain de Botton after watching his lecture, "How Art Can Save Your Soul." It's a wonderful read to remind us how and why we should travel, and it's timely before taking off on a summer vacation and submerging yourself in a travel experience.

—Chelsea Allison, *The Recorder*



Joe Beyers founded Inventergy, an intellectual property investment and licensing company, in 2012, and now serves as the company's chairman and CEO. He spent 34 years at Hewlett-Packard Co., including six as vice president of IP licensing, and is credited with a 20-fold increase in licensing revenue. He's also chairman of Ambature and Silicon Turbine Systems.

Inventergy's Joe Beyers

What need did you see in the market that made you start Inventergy? Large companies have an excess of IP that continually decays in value. Many companies lack the skills/experience/resources to obtain full value for this IP beyond just product revenue. In HP I helped create an IP mindset which changed HP's view toward intellectual property and created tremendous cash wealth. The goal for Inventergy is to do for other companies what I did for HP. Beyond creating value for IP, we also hope to create a more businesslike model of IP monetization—one without extreme "troll-like" behavior.

You invented the world's first single-chip 32-bit microprocessor. Does being an inventor yourself influence your perspective when it comes to intellectual property law and dealmaking? Without a doubt it impacts my perspectives and actions. I think that view is what attracts the attention of companies we're engaging with. When we created it, our chip was 10 times more dense than other chips on the planet. We had to invent so many new design methods and tools—of course now a lot of that is commonplace. It drove home the theme repeatedly that inventors and companies should get fair value for their inventions.

What do you make of patent trolling and the current efforts to curb it? Here's the challenge: Some behavior by certain firms can be viewed as unacceptable. On the other hand, the question is how pervasive is it? It's important that you don't throw the baby out with the bathwater. Actions that are either too extreme or too generic can undermine the value of intellectual property in the U.S. The way I look at this for Inventergy is that any-

thing that carefully focuses on extreme behavior, I'm in support of. It strengthens our position on a relative basis. Beyond that level would not just be hurting Inventergy or the industry, but U.S. competitiveness in general.

What work do you handle in-house, and when do you retain outside counsel? We can't do everything ourselves, and we rely on outside partners to assist us, from patent prosecution to IP transactions to litigation. We look for two things: An understanding of the law and the actions in the court, and an ability to intelligently apply that information.

Workplace pet peeve? One is when people focus on telling me what we can't do. I value most greatly ones who say, "Well, you can't do this, but you can do ABC..." It's easy to say no. It's more difficult to figure out how to get to yes. You have to understand from my background at HP that every transaction that touched IP had to be personally reviewed by me. I reviewed more than 5,000 transactions in seven years, and there were business or legal errors in 85 percent of them. There are very few types of IP transactions I haven't seen and very few mistakes I haven't seen.

Best career advice you ever received? I think first and foremost the No. 1 thing is to keep learning everywhere you go. It's such a dynamic industry that complacency is death. You've got to be evolving and learning.

—Chelsea Allison, *The Recorder*

A Sure Bet



MARK GRAHAM

Todd McTavish, senior vice president, general counsel and chief compliance officer, Multimedia Games Holding Co. Inc., Austin

'I've always had a fascination with why things are the way they are, why laws are written in a certain way, and I just had that intellectual curiosity about the law, that's what drove me to go the law route'

A lucky break turned into a great career move for Todd McTavish, senior vice president, general counsel and chief compliance officer of Multimedia Games Inc. The Austin-based public company designs, manufactures and distributes gaming technology, such as slot machines, to Native American and commercial casino markets. McTavish said he got the job as the company's top lawyer by "being in the right place at the right time. It was total luck."

The right place was the Global Gaming Expo in Las Vegas, an annual gaming conference, in the fall of 2012, where he met Pat Ramsey, the CEO of Multimedia. At that time, McTavish was general counsel for Video Gaming Technologies Inc., a privately held company in Franklin, Tenn. Ramsey and McTavish had both been collegiate athletes.

"We talked sports for about 10 minutes; it was a cordial introduction with no agenda or anything," McTavish said.

Then about a week later, he heard that Multimedia was looking for a new GC.

"It was so coincidental," he said. "I looked up the number and called Pat. ... It was serendipitous. He encouraged me to apply. I wasn't looking for a job or anything. I was very happy at VGT."

McTavish liked the Multimedia people he met while interviewing for the job, as well as the opportunity to be the GC for a public company.

"It's a more visible stage and much different role in a public company than a private one," he said.

The Path to Law School

McTavish grew up in Hershey, Penn. His father was an accountant and his mother a homemaker.

"When I grew up, all of my summer jobs were working on farms as a farm hand," he said. "It was very hard manual labor, baling hay, a typical country rural childhood."

McTavish earned a bachelor's degree in political science at West Virginia University in 1991 and was a linebacker on the school's football team. He obtained a law degree at Touro College Jacob D. Fuchsberg Law Center in New York City in 1998. He also earned a LL.M. in corporate finance law from Fordham University School of Law in 2004. Between college and law school McTavish "did a lot of odd jobs" including working as a salesman at a Porsche dealership.

"I've always had a fascination with why things are the way they are, why laws are written in a certain way, and I just had that intellectual curiosity about the law," he said. "That's what drove me to go the law route."

After law school McTavish joined Cadwalader, Wickersham & Taft in New York as a corporate associate. He liked working with small companies, advising executives on money-raising strategies and executing business plans.

"I began to think of going in-house," he said.

Through a professor who he met while pursuing the master's degree at Fordham, McTavish got a job in 2003 working in the tax planning department of PepsiCo Inc.

"It was not a legal position," McTavish said. "I was just interested in getting in-house and getting some experience in-house."

After a year with PepsiCo, he joined PricewaterhouseCoopers as a consultant, helping clients implement the Sarbanes Oxley Act of 2002. While with the consulting firm, McTavish learned about D1 Sports Training, a company based in Franklin, Tenn.

McTavish thought that the company's business model—developing training facilities geared toward specific sports—was a good idea. He joined the company in 2005 as vice president of business development and general counsel.

"It was a big risk going from living in New York City for 11 years to a small town in Tennessee, but it was what was in my heart," he said. "It was a small company, where I could be involved in management and strategy."

A call from a legal recruiter in 2008 sparked a meeting between McTavish and executives with Video Gaming Technology in Franklin, Tenn.

The meeting was his first stroke of luck in the gaming industry. The privately held company had been growing quickly; by 2008 it needed a legal and compliance department.

"It was pure luck that they were looking for a general counsel and they needed to build a legal department and compliance function—areas where I had expertise and had built at D1 on a smaller scale," he said. "It was another challenging role."

He was with VGT for five years before joining Multimedia. Multimedia has 500 employees and five in-house lawyers, including McTavish.

Most of the company's revenue comes from gaming operations such as leasing slot machines to casinos for a share of the revenue, he said. Other revenue sources include selling machines to casinos or casino operators and running the New York and Washington state lotteries, he said.

Like most GCs, McTavish has a generalized practice that includes handling matters such as Securities and Exchange Commission reporting, commercial transactions and intellectual property.

"Licensing is big in our industry," he said.

The company has to obtain licenses from each jurisdiction—states or Native American tribes—with which it does business, he said.

McTavish said he uses outside counsel for litigation, mergers and acquisitions, regulatory matters and some intellectual property work.

McTavish "has a very calm demeanor, a very calm, deliberate approach to his job," said William Mills, a corporate partner in Cadwalader in New York.

Mills has known McTavish since 1998 when they worked together at the firm.

"I think he's a very practical general counsel," Mills said. "He knows how to sift through issues and identify the ones that are important to his business."

John Ghostbear, a solo practitioner in Tulsa, Okla. who works with McTavish on Indian law matters, said, "His is an easygoing style. He will let you know if he needs an answer yesterday, or periodic reports, etc."

Does McTavish still feel fortunate about joining Multimedia?

"It really turned out to be a great career move," he said. "I'm very happy with being here."

— Jeanne Graham, Texas Lawyer

Best Practices: Legal Expertise, Fair Billing

Texas Lawyer research editor Jeanne Graham emailed McTavish some questions about best practices. His answers are below, edited for length and style.

Texas Lawyer: What criteria do you consider most important when selecting outside counsel?

Todd McTavish: I do not select law firms based on reputation, but select specific lawyers based upon their legal expertise in the area for which they are retained. It's not a one-size-fits-all scenario.

TL: For what types of matters do you typically hire outside counsel?

McTavish: I try to keep as much as possible in-house, but M&A, Indian law, SEC compliance and gaming regulatory matters are the areas I usually turn to outside counsel for help.

TL: Under what circumstances do you expect outside counsel to offer alternative billing options?

McTavish: As a threshold matter, if I can't trust an attorney to do the right thing for my client when it comes to billing arrangements, I won't hire them. However, I occasionally seek flat fees when I can comfortably project the amount of time it should take to accomplish a task, or I ask for discounts on larger transactions or recurring legal work.

TL: What one thing from your previous work experience is helping you most on the job today, and why?

McTavish: I feel that my past experience at a company where I founded the legal and compliance functions has helped me the most in my current position. I had to roll up my sleeves and work nonstop for several years to get these functions off the ground, properly staffed and running smoothly. I think that experience gave me valuable insight and ability to successfully manage the day-to-day needs of a complex legal and compliance department.

— Jeanne Graham, Texas Lawyer

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KEYNOTE SPEAKER

Eleanor Lacey

General Counsel



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