

## **Outsourcing In-House Counsel: The Case of Trade Secret Services**

**David L. Cohen**

Previously I discussed the business case for engaging outsourced in-house counsel when a company is facing legal challenges related to standard essential patent (SEP) assertions. In this article I discuss the case for outsourced in-house counsel for trade secret services as well as what those services might entail.

Trade secrets protection is a timely topic. Over the past few years the relevant laws and business landscape has changed dramatically. The US Defend Trade Secrets act was enacted last year – and on paper has provided a very powerful set of tools to trade secret owners - though how the act will work in practice is still an open question. Similarly, in Europe the EU directive on trade secret protection is due to be implemented across member states by May 2018. From an accounting perspective the OECD instituted new rules for transfer pricing, base erosion and profit shifting which could significantly impact the accounting for trade secrets and increase the pressure for companies to have up-to-date trade secret protection policies and processes. From a business perspective, with the weakening of patent rights in the US and globally and the increasing use of cloud-based technologies, I believe that the future of innovation will rely heavily on trade secret protection. The foregoing makes choosing the right counsel to guide a company through the changes in the landscape all the more important.

Choosing the right counsel is never simple. As with SEPs, the choice between engaging outside counsel and hiring in-house counsel for trade secret matters can be very hard. Much of the difficulty comes from the fact that outside of litigation, most trade secret legal work is advisory and strategic, and thus not always a good fit for outside counsel. Talented in-house counsel with relevant experience, on the other hand, are often locked inside other companies'

legal departments. Moreover, many companies may not have the money or need for full-time legal staff. As such, outsourced, in-house IP counsel may be an elegant solution for trade secret advisory needs.

To review, outside counsel's repeat experience with certain categories of legal work for multiple clients provides a broad perspective hard to replicate in-house. Also, there will always be certain categories of substantive law where turning to outside counsel for advice makes the most sense. What those categories are will depend, of course, on the nature of a company's business. Finally, there are certain activities like litigation, for example, where having outside counsel intimately involved is not only good strategy but may in fact be required by the relevant law.

In-house counsel, on the other hand, tend to take the longer view of a situation. They are not as incented – as law firms often are - for a “big win” (however defined) when a more low-key approach would lead to a better long-term outcome. If in-house counsel become an integrated part of a business team they will both understand the facts of a situation and be able to anticipate legal issues far better than outside counsel. Finally, even where outside counsel need to be involved, quality in-house counsel will be able to manage outside counsel in a way that can not only minimize both cost and disruption, but maximize results.

Another key difference between outside and in-house counsel is that there are certain areas of legal activity with which in-house counsel tend to have much deeper experience. Standard Essential Patent licensing is one of them. Trade secret services are another. To be clear I am not referring to trade secret litigation. When it comes time for litigation there is no substitute for a top-notch litigation team. Nearly all such litigators work in law firms. That only makes sense. Where, other than a law firm, would a lawyer be able to practice and develop

the necessary skills and knowledge to become a high-powered trade secrets litigator? Something would have to be seriously wrong with a company's culture if its in-house lawyers became serious trade secret litigators.

Litigation, however, is not the only service lawyers provide or can provide around trade secrets, however. The majority of those services are advisory. Since many of these services require changes in a company's culture or practices, they tend to work best when they are rooted in a long term and intimate relationship hard to create between a business and outside counsel. Moreover, the economics of law firms are such that it is rarely profitable to offer such services. The firms that do tend to offer them as loss-leaders, to build loyal clients. While there is nothing wrong with that approach, it seems to me to be more effective to use lawyers on a project whose primary focus is on delivering the best possible results on the project at hand – because that is what they do -- rather than because they hope to get you as client when things go sideways and you need to sue someone.

In my view non-contentious trade secret advice works best when the lawyer is integrated within the company and has both the ear and trust of the business teams. When a company cannot - for whatever reason – engage full-time counsel in house for such service, outsourcing those services to an in-house specialist should be considered.

What are some of the services that lawyers can provide around trade secrets other than litigation? Below are a few of the key ones:

**Awareness and education:** This service can range from face-to-face classroom type training, to the design and development of online tutorials, as well as one-to-one coaching and mentoring of key individuals within. While it might be useful to have an outside litigator offer their lessons learned from litigation to a company, in my experience legal education only works when

it is in tune with the culture of a business and the educator knows how to communicate using the terms and values key to the business.

**Audits / Assessments:** In essence, this service amounts to auditing a company and its relations with its employees and other companies from a trade secret asset management perspective. The audit can be performed to provide independent assurance that an organization's governance and internal control processes are operating effectively. It can also act as an evidence gathering process for a number of purposes including, for example, preparing for a potential litigation, a monetization program, and as an M&A IP Due diligence exercise.

**Contracts:** This service relates to the review of all company agreements through the eye of trade secret protection. It can include drafting form agreements; key terms for use in bespoke arrangements; and/or general contract drafting principles where drafting specific terms might not be cost effective, that abide by the best practices of trade secret protection.

**Governance and Policies:** This service involves helping the organization establish and implement the appropriate structures and processes to professionally manage its trade secrets. This may consist of helping the organization to design and deploy a robust fit for purpose trade secret policy. It may also consist of sanity checking that such a policy aligns with other policies in the organization such as data protection, labor regulations, and employee incentive programs (e.g., programs that incent employees for innovation creation).

**Identification & Classification:** This service may consist of designing and deploying a robust trade secret asset management process within a company that covers the key top level sub-processes of context; identification; analysis; review; protection; and monitor. It likely will also require developing and/or acquiring the requisite tools to ensure that the trade secrets, once identified, are managed effectively.

**Legislation & Lobbying:** This may consist of advising a company about the key, relevant law and regulations relating to trade secrets. It may also consist of helping the organization understand how other forms of IP are impacted by trade secrets, for example ‘prior user rights’ in patents. Finally, it may consist of helping the organization craft an effective approach to lobbying local governments or trade associations to craft legislation, rules, guidelines, and/or regulations designed to ensure people and entities abide by the best practices regarding trade secrets.

**Monetization:** In a nutshell, this service provides advice regarding how to transform trade secrets from a cost center to a source of revenue. The first step in this service is to ensure that any trade secret process is aligned with other key processes within the organization. Secondly, it may involve creating a trade secret track (on top of, for example, a patent filing track) within an existing innovation generation program, or where applicable, creating an innovation generation program from scratch. Once a trade secret generation program is in place, the goal of this service is to find concrete ways using trade secrets by which a company can bring in revenue or other savings (e.g., tax savings through Patent Boxes or other similar tax regimes). These can include using trade secrets as collateral for loans or other securities and licensing out of trade secrets to third parties for profit either on their own or in combination with other forms of IP.

**Portfolio management:** This service consists of helping the organization - either on a one-off or continuous basis - with trade secret portfolio management. This is no easy task as a trade secret portfolio may contain tens, hundreds if not thousands of individual trade secrets. Moreover, trade secrets are not static. They need regular review and maintenance if a company is to maximize the value of such IP and retain a trade secret portfolio that is in line with the

company's commercial aims. This review must also be balanced with an understanding of how decisions made in the context of portfolio management can impact a potential future litigation – both positively and negatively. For example, too narrow a definition of a trade secret at the portfolio cataloging stage may preclude a company from seeking redress for unauthorized use of an unappreciated nuance of that trade secret (unappreciated at the time that trade secret was originally cataloged, that is) because the company unwittingly defined that nuance as not being a trade secret.

**Protection Mechanisms:** This service includes helping the organization to ensure that reasonable steps (administrative, technical, legal and cultural) are being taken to ensure that their trade secrets are indeed being protected. It may also involve (for example, where the company's trade secrets are highly sensitive) the creation of relationships with third parties such as law firms, and technical, economic and forensic consultants who will be ready on very short notice to “swing into action” in the event of a breach.

**Third Party Sharing:** This service comprises supporting the business in situations where it shares some of its trade secrets with third parties and/or when third parties share some of their trade secrets with the company. This may consist of ensuring that the appropriate legal frameworks are in place between the organization and these third parties. It may also consist of reviewing the trade secret asset management practices of these third parties to ensure that they are acting professionally.

*David L. Cohen, president and founder of David L. Cohen, P.C. was former in-house counsel at Nokia and former Chief Legal IP Officer at Vringo. His law firm focuses on outsourced IP counsel services including: SEP licensing; F/RAND and anti-trust compliance; offensive and defensive patent licensing and litigation management; IP and public markets*

*concerns; outside counsel management; agreements; and trade secret auditing and protection.*

*Through Kidon IP Corporation, David also offers: IP and standards white-spacing to guide R&D, patent brokering, patent review and valuation services, IP services for M&A, and global IP portfolio building.*