

## **Outsourcing In-House Counsel: The Case of Standard Essential Patent Assertion**

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The legal and regulatory landscape of modern business is becoming more and more complex every day. Whether one is a sole proprietor, runs a small business, or works for a large company, it is highly likely that sooner rather than later one will encounter a situation where one needs legal advice. When it comes to technology businesses or businesses operating in sectors with significant intellectual property (IP) activity, getting legal advice isn't a question of "whether" but "how quickly." And if the business operates in sectors like telecommunications, which are greatly impacted by standard essential patents (SEPs), there is no doubt: one *will* need counsel. Choose wisely, however. The difference between good and bad counsel can be the difference between a thriving business and bankruptcy.

Counsel choice is hard. IP counsel have a deserved reputation for being expensive and adding unnecessary complexity and inefficiency. Patent litigation is rightly called the "sport of kings." Beside cost and complexity, companies also need to determine whether to rely on outside (law firm) counsel, or to hire a lawyer to work inside one's business (in-house counsel). Sometimes a business can do both. They hire in-house staff and engage outside counsel on a project. Traditionally, most companies did not have it that easy and had to decide whether to hire a permanent employee or engage outside counsel. Very recently a third alternative has emerged, "outsourced in-house counsel."

The outsourced in-house counsel concept is rooted in the fact that a business may not need or want to hire a full time in-house lawyer but is reluctant to engage outside counsel full-time. Outsourcing a company's legal functions is not a new idea. Outsourcing patent annuities and renewals have been around since the 1950s. E-discovery and patent searching and analytics

outsourcing really took off in the past decade. These arrangements typically work as follows: for a specified fee, the company contracts with an experienced and well qualified attorney or legal professional to provide in-house legal or IP services on a full or part-time basis. The outsourced legal professional is effectively a part-time employee, acting in the way only employees can act, but on an as-needed, part-time basis. He or she can work at the company's site or in their own offices, develop an internal network, understand a company's dynamics, and provide value in ways that are very difficult for outside counsel to achieve. Lower overhead costs can also become quite attractive to businesses.

Until quite recently, most companies providing outsourced legal and IP department function offered services around non-core and non-strategic functions. Now, however, companies like Aavika and TnT IP and law firms like Colvin IP and Outside GC and others (including my own firm, David L. Cohen, P.C.) offer, on an outsourced basis, the same high quality, sophisticated legal, IP and other services provided by top-notch in-house legal and IP departments. This is a big deal.

To show why this is a so – and because of my own deep experience in dealing with SEPs - it is instructive to continue with the SEP example. In a forthcoming future article I will discuss another example, trade secrets, that also proves the point. SEPs are not like other patents. Knowing how to manage the SEP landscape requires very particular business and legal skills. The knee-jerk response to SEP assertions is to sue to prove non-infringement and/or invalidate the asserted SEPs. This typically results in prolonged and hugely expensive (and disruptive) litigation. Trying to find a mutually beneficial solution through licensing is likely to both be more successful and cost effective. SEPs are unique in that they are intended to be to be widely

licensed across the industry. The goal with SEPs is not necessarily to avoid a license or to pay a *de minimus* license fee, but rather to gain an advantage over competitors.

With SEPs, knowing when, and when not, to strike a deal is thus the key to a successful strategy. Knowing what a good deal looks like is even more important. This knowledge may not come easy to outside counsel who are not steeped in the particularities of SEPs and have not managed SEPs as a business. Outside counsel are both trained and incented by their compensation structure to “win.” For example, litigators are explicitly graded on their win/loss ratios and deal lawyers on the dollar size of the deals they manage. This focus on “winning” creates challenges. One of the first lessons I learned as a new lawyer working on a global SEP licensing project was that of a “strategic loss.” Sometimes it may be better to lose a particular case or get a lesser deal in order to preserve a principle or position that is far more important and valuable to the company. Taking a “loss” now may bring one’s client much greater litigation victories or licensing deals in different contexts down the road. For example, it might be better to reject a global licensing offer of greater dollar amount but which requires steep discounts for sales in certain countries in favor smaller dollar regional license that uses the company’s standard royalty rates. Rare are the outside counsel who truly understand this point, or who are willing to accept a loss. It is simply not the culture of the highly competitive outside counsel environment, but it is sometimes exactly what your business needs.

Understanding the motivations of SEP holders; anticipating their litigation strategies; and understanding the whole market impact, requires a comprehensive view and experience that few outside counsel possess. Having access to an experienced attorney who intimately understands one’s business as well as the market as a whole, and who has a network of contacts across the

globe will mean the difference between success and failure. In fact, quality counsel may be able to spot potential legal issues *before* they arise, and head them off.

None of this is to say that one should never engage outside litigation teams when dealing with SEPs. Far from it. Even companies with large, fully-staffed in-house legal departments need outside counsel. For example, only outside counsel might be able to provide specific local (geographic) or subject matter knowledge on particular aspects of an SEP project. Additionally, if it comes to litigation, being represented in court by outside counsel is almost always the better (where it is not explicitly required) approach. This is especially the case in diverse markets where the legal environment may be significantly different from the company's major markets. But even when outside counsel is significantly involved in a project, having the right in-house counsel involved is also important. In fact, it can be key to a better result.

Early in my in-house career – whether I was working on global SEP assertions or other projects - I learned the importance of actively managing outside counsel. Every filing and every presentation made by outside counsel had to be reviewed and aligned across the company's broader litigation and SEP strategy. Where necessary and useful we were expected to comment. Hiding behind outside counsel was no excuse, neither was pretending that as US lawyers we had nothing useful to add on non-US and global matters. This is a lesson that I have consistently applied throughout my in-house positions. Luckily, throughout my career I have been surrounded by very talented in-house teams who have been on all sides of the legal issues at hand. And while outside counsel sometimes grumbled that we made them work harder – and did not like when there was a heavy hand guiding them - we made them work better and often much less. The result was superior work product and ultimately better results.

The importance to a business of effectively managing outside counsel cannot be underestimated. Business types almost uniformly hate to have their work disrupted by litigation – even where the litigation could result in significant revenue. Not only do they hate disruption, they tend to blame their own outside counsel for the disruption – and they will let them know it. Many years ago, as a new in-house counsel on my first conference call about a litigation with company engineers and outside counsel I was told at the beginning of the call by the senior engineer involved, “I hate lawyers and I hate US lawyers most of all.” Believe me there is nothing more demoralizing to outside counsel and business folks as being forced to deal with people you hate or hate you. I quickly had to learn how to defuse the situation and unruffle feathers (both outside counsel’s and the business and engineering team). Ultimately, we developed a successful partnership with all involved where I was the mediator between the business side and outside counsel.

There are any number of ways that litigations (and even more so SEP litigations) can cause disruptions and general unpleasantness to companies and executives including: depositions, document requests, subpoenas, customs raids, diligence interviews, hearings, strategy sessions, interviews by government regulators, settlement meetings, etc. Outside counsel do not often appreciate how disruptive litigation can be. Moreover, outside counsel do not generally have a sense of the internal patterns and rhythms of activity within the company. As a result, they always *seem* to make schedule litigation-related requests and activities at the worst possible time. On the other hand, counsel who are attuned to how things work within a company and who is incented to take the longer view of the company’s business, will be able to work to develop a workable process that can satisfy (for the most part) both the needs of the business and outside counsel.

Unfortunately, attorneys with the skills necessary for successful SEP-related projects are usually in captive positions working in-house where their experience and knowledge are unavailable. What should a company do when it cannot justify long-term hires of in-house counsel, but has an acute legal need for their services?

This happens more often than many realize. For example, a Chinese company in the telecommunications space may wish to create an initial presence in the US or may become so successful that it becomes a target for its competitor. The company when it sets up operations will quickly realize the need for specialized counsel because it is now subject to multiple SEP assertions where previously it may have not to even consider patents at all, or that it may have to begin being assertive with its SEPs when it previously only took a defensive posture.

Another example might be a start-up or an established company branching out in a new business line much more impacted by SEPs, like the internet of things (IoT). IoT is routinely listed as one of the next frontiers for the so-called “patent wars.” IoT involves the convergence of so many different industries – ranging from telecom with its history SEP litigations, to automotive and home goods with little or no history of SEP litigations. Given this convergence and the double-digit number of IoT standards bodies, industry and regulators will probably take quite some time to coalesce around the “proper” way to license IoT SEPs. The result, in the near to medium term, will very likely be litigation.

What should companies do? They may recognize the need for competent counsel, but perhaps cannot afford a full-time hire; do not want to make a mistake when they hire a new person; or want to build up its legal department organically and not in one fell swoop. Such companies could hire in-house attorneys and hope that additional justifications for their

employment will surface. That may happen, or not. If it does not, a company will find itself in the tricky situation of needing to let staff go. That is far from an ideal outcome in the best of circumstances. For small to mid-sized companies any downsizing can be demoralizing beyond the legal department. It may also be that it is impossible to hire such specialized skills at any price. There may not be enough people out there with the relevant skills and experience. Alternatively, the company could rely on outside counsel, but that could become extremely expensive and disruptive. The company would also lose many of the benefits of in-house counsel discussed above. The use of highly skilled, outsourced in-house counsel can be an elegant solution.

As in most things, the best way to engage counsel is a matter of balance and the result of informed and objective analyses. The key issue of determining whether outsourced in-house counsel services are proper for a company is a question of balancing the delivery of the company's needs for legal services between inside and outside legal providers to ensure an ultimate advantage for the company. The important thing is to have resources of the correct caliber in the right place to deliver each aspect of the company's legal requirements.

In my next article I will discuss how outsourced in-house counsel can be similarly effective in the trade secret arena.

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