



1025 Connecticut Avenue, NW, Suite 200
Washington, DC 20036-5425
Tel 202.293.4103
Fax 202.293.4701
www.acc.com

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ACC's CLO THINKTANK EXECUTIVE REPORT "Strategic Issues in Intellectual Property Risk Management"

This Executive Report provides an overview of discussion results from ACC's CLO ThinkTank session titled "Strategic Issues in Intellectual Property Risk Management" held in San Francisco in June, 2007. ACC's CLO ThinkTank sessions are designed to provide a forum for CLOs who wish to exert greater leadership in their companies, at the bar, in the courts, and in the halls of government on emerging issues of greatest concern. Following is summary information on key topics and takeaways and discussion point highlights identified by these CLO thought leaders.

ThinkTank participants included the following legal leaders:

- Michael Fricklas, Executive Vice President, General Counsel & Secretary, Viacom Inc.*
- Michelle Banks, Senior Vice President & General Counsel, Gap, Inc.
- Art Block, Senior Vice President, General Counsel & Secretary, Comcast Corporation
- Dan Cooperman, Senior Vice President, General Counsel & Secretary, Oracle USA, Inc.
- Charles James, Vice President & General Counsel, Chevron Corporation
- Steve Marks, Executive Vice President & General Counsel, Record Industry Association of America
- Mike Ostroff, Executive Vice President & General Counsel, Universal Music
- Donald Rosenberg, Senior Vice President & General Counsel, Apple Computer Inc.
- John Schulman, Executive Vice President & General Counsel, Warner Bros.
- Laura Stein, Senior Vice President & General Counsel, The Clorox Company
- Kent Walker, Vice President and General Counsel, Google Inc.

KEY TOPICS

Below is a list of key topics selected by the CLOs present as most interesting and discussed during this CLO ThinkTank session:

- Organizational Structure for IP
- Changing IP Environment
- Global Challenges
- Enforcing IP Rights
- IP Talent- Challenges

KEY TAKEAWAYS

Thought leaders participating in this session described a number of ideas and practices. Listed below are some top themes and takeaways. Ideas on additional issues are described in the Discussion Highlights section below.

- **Organizational Structures for IP vary, with some having a single ‘IP Czar’ and others having a combined approach.** Participants described a range of organizational structures for IP strategy. Models include having the CLO as the ‘de facto’ IP czar, having the lead IP strategist be the CEO or Head of R&D and models in between—that favor a combined approach involving the lead IP lawyer and business strategists.
- **Changing business environment and IP landscape drives need for ‘innovation plus.’** Out-innovating is no longer enough. With trolls, new era for software patents, internet, dynamic business environment, changing consumer expectations—the corresponding strategic importance and views of IP rights require more than innovation.
- **Enforcing IP rights- call for reform.** Participants described the need to eliminate treble damages as a remedy and to eliminate the incentives for frivolous patent litigation. They also discussed challenges with arbitration and the courts (jury trials) as venues for decisions on complex IP issues, and challenges in enforcing decisions globally.
- **Recruiting and retaining IP talent is a huge challenge.** Participants described challenges associated with recruiting and retaining legal talent with IP expertise (and a new phenomena of in-house lawyers leaving companies to practice at law firms) as well as challenges associated with retaining key research and development personnel with access to trade secrets and ideas on innovations.

DISCUSSION HIGHLIGHTS

ORGANIZATIONAL STRUCTURE FOR IP

Organizational Structure/ IP ‘Czar;’ Top IP Strategist: Participants discussed a broad range of organizational structures that include having the top IP strategist inside and outside of the law department. Following are some of the different approaches:

- *CLO is the de facto IP Czar:* law department also includes a Chief IP lawyer, but the CLO is currently on-point for strategic IP direction; CLO is considering creating an overarching position to provide broad oversight and strategic direction for IP strategy
- *No IP Czar—Combination Approach:* a few participants noted that they do not have a Chief Technology Officer or IP Strategist. Instead, for one company the lead IP lawyer and head corporate strategist play this role together; for another, the Chief Patent Lawyer, Chief IP Litigation Team Lead and the CLO together play this role (for this latter company, IP rights are managed by the law department). One participant noted that IP is too interwoven into the business to have a single czar, but that the company does have a Chief Technology Officer.
- *CEO is the Chief IP Strategist:* within this company, the litigation group reports to the CLO and the government relations group reports to the CEO
- *Head of Research & Development:* for one company the head of R&D oversees IP strategy; within this company, the law department works hard to maintain close working relationships with the R&D group and the Chief IP lawyer is on the R&D group’s leadership team
- *Head of IP Group:* one participant described the head of the company’s IP group as the chief IP strategist, with a role that includes strategic executive discussions regarding IP strategy, policy, business plans and direction

Organizational Structure/Legal Support for IP: participants discussed teams, structures, and sub-specialties within or used by the law department for providing legal support for IP. Following is a summary of some of the approaches:

- *Law Department has Chief IP Counsel and a Chief Patent Counsel:* with a combined staff of around 60 lawyers; patent prosecution and trademark work is primarily handled in-house and litigation is handled externally
- *Law Department Includes 3 IP lawyers:* of the 75 lawyers in the law department, 3 focus primarily on IP matters; the company is in the process of creating a strategic IP function and the leader of this function will be a business person first; position and structure are evolving and it isn't determined yet whether the head of the IP function will have an organizational reporting relationship to the CLO
- *Law Department includes an IP team of 4 lawyers and 16 additional professionals:* law department is 22 lawyers total and heavily leverages use of non-attorney professionals; IP and government affairs report into the CLO
- *IP work is infused throughout the law department:* law department includes around 145 lawyers in 31 countries; no specific IP team within the law department because all handle some form of IP-related work (including inbound and out-licensing, copyright and patent litigation, privacy and security issues, financing for intangible rights and more)
- *All in-house lawyers provide IP support to some degree:* for one law department, most of the organization's 150 in-house lawyers are aligned with various business units that produce and distribute IP—so all have some amount of IP responsibilities; for another law department that includes around 200 lawyers across the organization, the CLO describes all of the lawyers as being IP lawyers to some degree and notes that some of the business divisions have 1 or 2 lawyers dedicated solely to IP matters
- *Law Department includes team of patent lawyers with trademark and copyright issues supported by the litigation team:* of the approximately 100 lawyers in the law department, around 12 are focused on providing legal support for patent-related issues; legal support for trademark and copyright issues is provided by in-house lawyers on the litigation team
- *Law Department includes Chief IP lawyer and patent team; trademark maintenance & prosecution for matters worldwide outside of the United States is centralized in Argentina:* of the 60 professionals in the law department, about 15 or so are involved in providing IP legal support; the law department includes a Chief IP lawyer and a patent team with around 8 lawyers plus some patent agents; legal support for all trademark issues outside of the United States is handled by a team of lawyers in Argentina—a practice described as providing great efficiencies and cost savings

CHANGING IP ENVIRONMENT & CHALLENGES

Changing IP Environment/Patent Trolls; Litigation: several participants described how patent trolls are changing the dynamic; apportionment of damages and jurisdiction are also described as litigation-related challenges

Changing IP Environment/Patent Rights for Software: one participant discussed how the key to progress used to be to out-innovate others, and so copyright was most important; in the new environment, the issue has moved to patent work and challenges include business method patents and the folks who seek to deconstruct products and then claim that they are owed a share for your use of their ideas; the participant described how even focusing on the defensive mode of acquiring portfolio of thousands of patents and building an arsenal of patents still presents challenges since the litigation landscape includes plaintiffs who are not interested in commercial resolution (such as cross-licensing) but instead are primarily interested in financial remuneration; additional challenges include trying to identify and track the thousands of patents filed every year in software

Changing IP Environment/Patent Reform Legislation: participants discussed apportionment of damages, jurisdiction and the second look provisions in the legislation as concerns and challenges

Changing IP Environment/IP Distribution Challenges: participants described how some industries are experiencing a fundamental shift --moving from a place where IP could be controlled to a place where it's

almost impossible to control distribution of IP; business models and consumer expectations are also rapidly changing; download-to-own and availability of so much to consumers on a free basis create business challenges

Changing IP Environment/ Internet Impacts: participants noted concerns regarding secondary liability relating to internet business practices and trademark and copyright issues

Changing IP Environment/Patent Auction Catalogs: participants described notices regarding availability of patent auction catalogs, and associated challenges, including issues such as notice, willfulness and potential infringement

Changing IP Environment/Digitalized Databases: participants also discussed challenges associated with viewing these databases and whether reviewing them would create a willfulness issue

GLOBAL CHALLENGES

Global Challenges/Shaping Legal Systems: participants described importance of trying to help shape evolving legal systems so that companies based in the U.S. can have more certainty in IP rights on a global scale; view that as industries that value IP develop within countries with emerging IP systems, the IP regulatory and legal systems will also develop because of the local importance

Global Challenges/Enforcing Judgments: participants discussed challenges that may exist in enforcing judgments on infringements; partnering might be a preferred alternative to help monetize value of IP

ENFORCING IP RIGHTS

Enforcing IP Rights/Legal Reform is Necessary: participants discussed how legal reform is necessary; they discussed challenges associated with frivolous litigation and abuse of litigation

Enforcing IP Rights/Treble Damages Should be Eliminated as a Remedy: participants described how availability of treble damages provides a ‘bonanza’ that provides incentives for plaintiffs and increases law suit potential

Enforcing IP Rights/Judicial and Jury Expertise: participants described challenges associated with bringing complex IP cases before non-expert judges or juries

Enforcing IP Rights/Finding Infringement: participants described processes that include hiring services/trademark agents around the world to monitor infringement

Enforcing IP Rights/Cross-claims: participants discussed importance of up-front strategic decisions and risk-reward analysis in enforcing IP rights, given potential for cross-claims and uncertainty until litigation is over

Enforcing IP Rights/Arbitration: one participant asserted that arbitration isn’t what it used to be; described process that sometimes involves having an arbitration begin, the other party going to court to try to enjoin, and then possibly having an arbitration judgment appealed—view is that arbitration is more like spinning wheels; another participant shared a view that courts are a better place for dispute resolution in IP matters—‘at least parties know what the rules are’

IP TALENT

IP Talent/Challenges Recruiting & Retaining within the Law Department: participants discussed challenges associated with recruiting and retaining lawyers with expertise in the IP area and the disparity in pay scale between in-house and law firms; they also discussed a new phenomenon of losing in-house IP lawyers to law firms

IP Talent/Changing Role of the Law Department: one participant noted that the law department is playing a different role with regard to IP as compared to IP roles in prior years—today’s IP lawyers need to be strategic thinkers and visionaries; they’re changing the way that business is done and provide strategic input on the front-end

IP Talent/Research & Development Personnel: one participant described challenges regarding trade secrets and conflicts when competitors try to hire away R&D personnel who have knowledge of product pipelines and other IP initiatives; participants described options of going to court to address these tactics; additional practices to help protect key information within the R&D group include: trying to segment information and who has access to it and creative use of compensation clauses

IP Talent/Importance of Diligence in Hiring: participants discussed importance of diligence in the R&D hiring process- particularly when potential candidates/applicants come from competitor companies

IP Talent/Geneology & Records Practices: one participant described the benefits of implementing practices that include identifying unique and proprietary information, tracing the genealogy of the knowledge (e.g., who is in the information loop and at what phases), and maintaining records