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Inside

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Authors

Michele A. Santucci, Esq.
Attorney at Law, Niskayuna, NY

Professor Leona Beane
Professor Emeritus at Baruch College and Attorney at Law, New York, NY

Richard V. D'Alessandro, Esq.
Richard V. D'Alessandro Professional Corporation, Albany, NY

Professor Ronald David Greenberg
Larchmont, NY

Thomas O. Rice, Esq.
Attorney at Law, Garden City, NY

This practice guide covers corporate and partnership law, buying and selling a small business, the tax implications of forming a corporation and banking law practice. It covers many issues including the best form of business entity for clients and complicated tax implications of various business entities.

Updated case and statutory references and numerous forms following each section, along with the practice guides and table of authorities, make this edition of *Business/Corporate and Banking Law Practice* a must-have introductory reference.

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Message from the Chair

Trick or Treat

October is a spooky month for many, at least by our old time traditions, but in a good way, I hope. Toward these ends, I would like to talk about two of our upcoming traditional events.

The first of these is our biennial Ethics CLE. What is spookier to lawyers than pondering the dangers to our hard earned law licenses? However, I would not subject you to such awful terrors without arming you appropriately, and sending you into a battle with a tried-and-true hero. The incomparable Michael Ross will lead a spirited discussion, with several other distinguished panelists, on various "hot topic" ethical issues. I have attended several of these panels in the past and they were all fun, peppy and informative. I want to extend a very special thanks to our veteran Co-Chairs, Steven Nachimson and Howard Shafer, for putting this together. It is a great way to fulfill all your required ethics credits and grab a hot breakfast in the morning; salt and pepper likely included but no vampires will be present, so please, leave the garlic at home.

The second tradition is one lost and re-found. Long before my time, I have heard, there were greater efforts to join our downstate and upstate Section members. This is something I fear has fallen by the wayside recently. We invite you to join us, for a two day CLE/Networking event and tour of Albany, the Empire State's seat of power, intrigue, and cool colleagues. Sarah Gold, of the Business Law Section, very graciously has taken the initiative along with several of NYSBA's central staff Section Liaisons, including Adriana Favreau, Sydney Joy, and Stephanie Bugos, to plan a truly fun event that not only will be educational, but also a great way for Corporate Counsel Section members from across the state to get to know each other, and to get to know the Business Law Section, a kindred group that shares many of our interests. I hope you can join us.

Enjoy the fall, the turning of the leaves, the good food, and especially these two events to round out your Halloween month.

Jeffrey P. Laner

Inside Inside

Elizabeth J. Shampnoi

Welcome to the Fall 2016 Issue of *Inside*! For many years this publication has focused on a particular theme such as litigation, compliance, intellectual property, etc. Recognizing that in-house legal departments are being asked to do more with less and are expected to be well versed in a variety of areas, we have changed the format and content of *Inside*.

This issue, and each issue going forward, will have a variety of topics (hopefully, something for everyone). We will continue to provide content that includes practice points concerning recent updates on substantive areas of the law as well as appropriate changes in case law. However, we will also strive to provide articles of interest for in-house counsel concerning career development, networking, management and operations. It is our goal to ensure that each issue includes articles that are of practical use no matter the in-house role you serve, your area of practice or industry served. We will also begin providing updates about the Section's activities and identify ways for you to get involved. Of course, we are not changing everything. We will continue to include book reviews and interviews of our in-house colleagues.

Jessica Thaler-Parker

We would like to thank all authors who contributed to this issue. We would especially like to thank Gabriella Gill with Stout Risius Ross, Inc. Gabriella helps to coordinate and organize each issue for submission to the NYSBA. Her organization, follow-up and ability to help us meet the demands of putting each issue together are greatly appreciated.

Finally, we want to hear from you! Please let us know what you think of these changes. Tell us what topics you would you like us to cover. Are there additional changes you would like to see? And, as always, if you are interested in writing an article or connecting us with someone to write an article, please do so. Meanwhile, we hope you enjoy this issue.

Elizabeth J. Shampnoi and Jessica Thaler-Parker

Request for Topics

If you would like to have an article considered for publication in *Inside*, please send your topic title and paragraph description to either of its editors:

Jessica D. Thaler-Parker
410 Benedict Ave.
Tarrytown, NY 10591
jthaleresq@gmail.com

Elizabeth J. Shampnoi
Stout Risius Ross, Inc. (SRR)
120 West 45th Street,
Suite 2800
New York, NY 10036
eshampnoi@srr.com

www.nysba.org/Inside

Kenneth G. Standard Diversity Internship Program

By Matthew Bobrow

The committee, responsible for administering and managing all aspects of the Section's Diversity Internship program, named in honor of former NYSBA President Kenneth G. Standard, works with various New York State law schools each year to select several law students of color to apply for summer internships in corporate law departments with New York State-based companies or organizations.

2016 is the 11th year of the Corporate Counsel Section's Kenneth G. Standard Internship Program, which focuses on identifying and supporting in-house internship opportunities for law students from a diverse range of backgrounds.

The Section provides funds for half of each student's salary, but many of the host companies over the years fully provide for the students' salaries. Due to the generosity of the host companies, more students each year are able to participate in the program.

Eight students participated this year. Consolidated Edison Company of New York hosted two students, Alicia Neal from Pace Law School and Jessica Denninger from Hofstra Law School. SalesForce.com hosted two students, Ingrid Medina from Touro Law School and Danny Amaisee from Pace Law School. PepsiCo Inc. hosted two students, Marlene Sanchez from Hofstra Law School and Alyse Velger from Pace Law School. Visiting Nurse Service of New York hosted Raymond Ude from Hofstra Law School. Urban Justice, our New York State Bar Foundation Fellow, hosted George Ocasio, Jr. from Syracuse Law School. Also, thanks to Alliance Bernstein and Chubb who were willing hosts this year, but ultimately did not find a student match. If you are interested in hosting a student in 2017, please contact David.Rothenberg at David.Rothenberg@gs.com or 212-357-2368.

Special thanks to Pryor Cashman, LLP for hosting the August 16 reception honoring our students, the host companies, law schools and volunteers for the program.

We also want to thank NYSTEC and *Kaplan Bar Review* for their support of the reception. *Kaplan Bar Review* each year has also provided one student a free bar review course and substantial discounts to the rest of the participating students. They also provide a discount to students in attendance at the reception. Finally, special thanks to Ken Standard for his guidance and participation in the process throughout the year.

If interested in joining the committee, please contact David Rothenberg as we are looking for volunteers to bring together our past interns, and grow our future student pipeline at the law schools each year. Thanks to all of our committee members for their work each year.

If you want to learn more, please go to: http://www.nysba.org/Sections/Corporate_Counsel/Committees/Kenneth_G__Standard_Diversity_Internship_Program.html.

Membership

By Jana Behe

We are focused on adding and delivering value to our Corporate Counsel Section's membership community. As of July 1, 2016 we are happy to report that our Section is 1,469 members strong! Whether you are in-house for the first time, a seasoned GC, in a compliance role within a corporation, or acting as outside counsel to a corporation we understand your time is valuable and your needs are always evolving. The Membership committee is examining new ways to provide added benefits to our member community and seeking new ways to provide you with relevant information and connect you to your peers. We will be hosting a Membership Networking and Appreciation Reception in November. Stay tuned for more details! If you are interested in joining the Committee or have suggestions, please contact Jana Behe at behe@nystec.com.

Diversity Committee

By Naomi Hills

The Corporate Counsel Section is committed to diversity and creating programs that foster this initiative. Currently, the Diversity Committee is seeking committee members to assist in creating events and CLEs for the Section. We are interested in partnering with other Sections in NYSBA and other bar associations. If you are interested in joining this committee, please contact Naomi Hills at naomikhillslaw@gmail.com.

Inside Interview

David Perlman

NYSBA Executive Committee Member and in-house attorney for Citizen Watch Company of America, Inc.

Conducted by Kate Chmielowiec

Insight From In-House

I was given the opportunity to speak with NYSBA Executive Committee Member David Perlman, who has also served as an in-house attorney for Citizen Watch Company of America, Inc. for the past 28 years. Mr. Perlman offered much insight into his career path, NYSBA involvement, and what it really means to be an in-house attorney. Additionally, Mr. Perlman offered extremely valuable advice to young attorneys regarding their professional development and tips for success as an in-house attorney.

David Perlman

Path to In-House

Mr. Perlman did not originally aspire to be an in-house attorney or even an attorney at all. After deciding that medical school would not be the right path for him, and after considering other options such as accounting and teaching, he decided on the Western New England College School of Law. There, he became "hooked" on the law and took a particular interest in International Law.

After graduation, Mr. Perlman "pounded the pavement" and went from one New York City law firm to another looking for a job. After an unsuccessful interview with a solo practitioner, his grandfather suggested interviewing for a position with North American Watch Corporation. His grandfather informed him that North American Watch Corporation had recently lost an antitrust price fixing case and was looking to start a legal department. The company had subsidiaries in Switzerland and Canada and therefore his grandfather thought that the opportunity would be a good fit with his interest in International Law. Watches, it turns out, was the family business. His grandfather was in the watch business in Austria and, after emigrating to the United States, he became the first distributor of Corum watches in the United States. His grandfather had sold that business years before to what would later become North American Watch Corporation. Mr. Perlman interviewed with North American Watch Corporation and was later hired as the Assistant to the Treasurer for Legal Affairs.

Remember that unsuccessful interview with the solo practitioner? Ironically, the day after he accepted the in- house position, that practitioner called and offered him a job. Since he had already accepted the position with North American Watch Corporation and thought he was "honor bound" to them, he turned down the offer and turned it over to a law school classmate who ended up with the position (note: always be generous!). That practitioner would later merge his firm into one of Manhattan's premier real estate firms. Mr. Perlman supposes that this could fall into the category of things that he could have done differently but, looking back on it with some perspective, he would not have been as happy to be a big city firm attorney and he is very satisfied with the way his career turned out.

In 1988, he was approached by a recruiter about a job with another watch company. In the course of the conversation, she asked him if there was any other watch company for which he would consider working. He mentioned Citizen Watch Company of America, Inc., which is where a former executive of North American Watch Corporation was the President. Mr. Perlman joined Citizen and has been there ever since.

NYSBA

I asked Mr. Perlman to tell me about his NYSBA involvement and what advice he has to law students and young attorneys about being involved with a bar association. Mr. Perlman joined not only NYSBA, but also the Corporate Counsel Section and its Anti-Trust Committee. After being active and putting together various programs for the committee, he became the chair of the committee. He later was elected to the Executive Committee of the Section, served as an officer, served as Chair of the Section, and then as the Section's Delegate to the House of Delegates.

It is no surprise with Mr. Perlman's background that he strongly encourages young attorneys to join Committees and Sections within the Bar Association. He identified several reasons we should consider joining. First, Committee and Section memberships give attorneys the ability to gain substantive legal knowledge in both formal ways, through CLE programs, and more importantly, in informal ways.

He discussed the privilege of one being able to informally call a colleague, who will not charge legal fees for the call, for advice when the attorney is confronted with an unfamiliar problem. Second, he discussed the CLE programs available to members. The third reason he mentioned is networking. He discussed with me the reality that sometimes people advance based on who they know and with whom they have worked. Working with someone on a Committee or past project may lead to that person remembering you and your work when a career opportunity comes up. The fourth reason is that he feels that joining and being active on a Committee or in a Section often helps avoid the sense of isolation that lawyers feel. The fifth and final reason really ties it all together: forging relationships with our colleagues.

Insights and Advice

I asked Mr. Perlman what he enjoys about being in-house and he discussed how much he enjoys having a variety of projects to work on for different departments. He also enjoys having the ability to choose what projects he sends to outside counsel. He cautions, though, as a piece of advice to other attorneys, to "Never think that you're no longer responsible. It's still on your shoulders." Mr. Perlman also enjoys the opportunities for creativity that being in-house present. He feels that litigators are restricted to the past and their presentations of "reality" are constrained by the somewhat artificial rules of evidence and procedure. On the other hand, business lawyers work in the present and future. He finds looking at projects and thinking about things such as, "How do we look at this;" "How do we fix it;" "Are the underlying premises really established and what is the support for what we think we know or believe;" "How do we structure this deal so that it is favorable to my organization?" He finds thinking and working this way exciting.

In an age where in-house legal positions are highly coveted, I also asked him what he feels is the biggest misconception of being in-house. He told me that it is the misconception that an in-house attorney works 9 to 5. He discussed that although he is free from the firm timesheet grind, his position is far from a 9 to 5 lifestyle. He also discussed another misconception that business people, in particular, have about in-house attorneys—that lawyers know all of the relevant laws. He also mentioned a misconception that both attorneys and business people need to be aware of, that with respect to international contracts, "Just because the contract is in English, that doesn't mean you really understand it. The 'legal terms of art' have different meanings in different jurisdictions and layered on top of that are different cultural norms that make interpretation in the proper context more challenging than may first appear."

As to advice to contract, business, and in-house attorneys, he stresses that attorneys need to understand not only the language of business people but also the attorney's role. He feels that the legal department is really a service department and its service is to help business people excel at their jobs. Business people make the decisions at the end of the day and the attorney's role is to fully inform them of the consequences and other options so that an educated and informed business decision can be made. He feels that the attorney also needs to inform the business people of certain realities, such as getting caught up in the notion of fairness. He finds that a lot of business people think that breaching a contract is immoral but the reality is that it is not. His role is to put the business people and the entity in the best position to understand what can happen in a breach or, under the terms of a contract, what the possible consequences are, and how they need to look forward and potentially plan now.

Additionally, he cautions attorneys that they "need to understand that there is a difference between intelligence and knowledge. As lawyers, we are steeped in a world of specialized knowledge. It is a huge mistake to assume this means we are smarter than the business people." The business, accounting, marketing, and legal views are all important and need to be considered and reconciled. He learned this early in his career at North American Watch Corporation by working with one of the accountants. He remembers that he "came to understand that there was often the accounting point of view and the legal point of view which didn't always coincide but ultimately had to be reconciled or someone would be wearing stripes."

Mr. Perlman further cautioned about the dangers of "going native" as an in-house attorney. He warns that in-house attorneys need to keep in mind that although they are like the business people, they ultimately are not business people. He discussed at length other companies that undertook high risk and extremely questionable schemes, which led to question, "Where were the lawyers?!" because the lawyers had essentially given into group think and stopped thinking as lawyers. He stresses the importance of taking a step back and measuring what the business people want to do against the law. The attorney needs to stand up and say, "I understand the goal but your method is not right or proper. This is another way to reach your goal that will pass legal muster." He stressed once again that the attorney's role is to explain those risks and problems to the business people.

His final piece of advice to in-house and corporate attorneys is to keep in mind a quote from Mark Twain, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." He advises attorneys to beware of accepted wisdom, to ask, "How do we know this?" and not accept the "Because we do" type of answer. He encourages attorneys to speak up and "not be shy about putting their two cents in."

Kate Chmielowiec is an Associate for Bond, Schoeneck & King in Syracuse, New York and is interested in business and corporate matters. She graduated from Syracuse University College of Law, cum laude, in May 2016 and participated in the NYS Pro Bono Scholars Program.

All Hands—Including Corporate Counsel—on Deck

By John D. Feerick[1]

There is a critical need today for the special assistance of lawyers to help unrepresented litigants of limited means. Lawyers working in corporate settings are poised to make a difference, and have an increased ability to enrich their own experiences and the standing of their company by providing such help.

Although this need continues to grow in many areas, it is not new; indeed, there has always been some group of litigants that has not been able to find or afford legal representation, and the obligation of lawyers to provide assistance dates back centuries. Michael Cardozo, former Corporation Counsel for the City of New York, has said:

> The obligation to help those less fortunate has always been a fundamental tenant of the legal profession. The early Roman Empire provided for 'advisors to the poor.' By the early Fifth Century of the Common Era, clergy were mandated to provide legal counsel to those who lacked resources on their own. A fifteenth century statute of Henry VII directed justices to appoint attorneys for poor people.[2]

Lawyers have always had an obligation to serve, but even more so today, corporate counsel are in a unique position to help deal with the vast unmet legal needs of the poor.[3] Less than half of America's lawyers participate in pro bono work on a regular basis. Eighty percent of the legal needs of low-income Americans are not being met, and the rise of poverty threatens to escalate this statistic. Thomas Jefferson, when framing the curriculum of America's first legal institution at William and Mary, saw lawyers "as leaders of communities, states, and nations, placing the public interest above their own private interest."[4]

Recently, the ABA Standing Committee on Pro Bono and Public Service conducted a survey of 3,000 lawyers regarding their participation in legal pro bono work.[5] In this study, three-fourths of all attorneys indicated that they do not seek out pro bono opportunities, but that the work they do take on finds them. Most notably, the majority of pro bono work that was undertaken was proffered by their state or local bar associations, or directly marketed by a legal aid or pro bono organizations.

Specifically, as it related to in-house corporate attorneys, 23% had performed 50 or more hours of pro bono work. This is far less than the 39% of private practice attorneys, but an increase as compared to only 15% of government lawyers that completed 50 or more hours. An important finding of this survey was that corporate attorneys were far more likely to express concern about the subject matter of the pro bono work not being within their expertise. Sixty-three percent of in-house counsel felt this concern, as opposed to just 33% of private practice attorneys. To increase pro bono activity, those surveyed suggested developing more mentoring resources and opportunities for attorneys to co-counsel, increasing employer encouragement and support, developing rules and policies that allow for the referral of limited representation matters, and doing more to match the cases to the expertise of the attorney.

There are certainly challenges that are presented in today's pro bono culture. The lack of malpractice insurance, for example, is one obstacle that is faced for legal activities outside of the corporation. This might be remedied by a non-profit extending its own malpractice insurance at a nominal cost. Additionally, conflicts need to be avoided, as there are rightfully concerns about conflicts of interest between corporate work and the needs of pro bono clients. Since many pro bono clients seek help against corporations, how do you protect against this conflict, while also seeking to keep capable volunteers working in their respective fields? One solution is to allow limited representation, as is the case in some states today. Further, the client may be able to disclaim this risk, thereby allowing any attorney to recuse himself if a conflict is found later on. This has been viewed quite favorably by the courts in certain situations. Although attorneys must stay away from direct conflicts (e.g., an attorney from American Express should not partner with a debt clinic), there are opportunities for lawyers from a wide range of backgrounds to assist, and with the currently available resources participation has been made more accessible to corporate lawyers.

From a corporate perspective, the value of corporate counsel's participation in pro bono cannot be overstated. Corporations have personalities, and are most valuable when seen to be serving the public. If a corporate counsel is to serve his or her company effectively, therefore, he or she should find himself or herself deep in pro bono activity. Research has shown that consumers overwhelmingly favor companies that they regard as good public citizens. An excellent example of this is the Dawn dishwashing soap commercial, where volunteers are using the product to wash spilled oil from birds.[6] The message conveyed is that not only is the Dawn product strong enough to remove oil and grease,

but also that the corporation has created a product so important to a healthy environment that consumers are helping the environment by purchasing this product.

Former Chief Judge Jonathan Lippman introduced several new changes to the pro bono system in New York State, with the hope of increasing that access by corporate counsel, as well as to expand New York's leadership throughout the nation. "The Constitutional mission of the judiciary," Judge Lippman said, "is to foster equal justice."[7]

One change, for the first time, authorized registered in-house counsel to provide pro bono legal services in New York State. Under this new rule, an attorney admitted to practice, and in good standing in another state or territory of the country (with proper registration and notice), may appear pro bono, either in person or by signing pleadings, in a matter pending before any tribunal of this state. This change has the potential of significantly enlarging the pool of available pro bono lawyers. The opportunity for corporations and their in-house counsel to provide leadership in helping those in need is now a reality. Individual in-house lawyers may now more easily fulfill their obligations, and their corporations may now more successfully demonstrate their roles as good citizens in the communities.

This important change is one of many accomplished by former Chief Judge Lippman to provide access to justice for those in need. Some others included providing a significant sum in the court budget to finance more legal services to the poor, creating the Attorney Emeritus Program to encourage lawyers over 55 to undertake pro bono service after training and under the supervision of legal services programs (with about 15,000 lawyers now registered to do so), and instituting a 50 hour pro bono requirement for all of those seeking to be admitted to the New York Bar. These changes not only changed the pro bono landscape in New York, but resonated around the country. For example, California adopted a similar 50-hour pro bono requirement for bar admission soon after New York.[8]

As former Chief Judge Lippman has observed: "New York Lawyers have an extraordinary history of helping those in need." There is no doubt that in-house counsel are now positioned to become an even greater part of that tradition.[9]

Endnotes

1. I deeply appreciate the help and research of Fern Schair, Esq., and Zach Schreiber, a student at Fordham Law School, in the preparation of this article.
2. Michael A. Cardozo, Rebuilding the City: The Opportunity to Help and the Obligation to Serve (January 26, 2003).
3. John D. Feerick, Getting to the Heart of the Corporation: Effective Pro Bono Strategies, Practising Law Institute (2010).
4. John D. Feerick, On the Occasion of the Presentation of the Michael Franck Professional Responsibility Award to Mary C. Daly, Posthumously (May 28, 2009).
5. *Supporting Justice III: A Report on the Pro Bono Work of America's Lawyers*, A.B.A. Standing Comm. on Pro Bono and Pub. Serv. (Mar. 2013), http://www.americanbar.org/content/dam/aba/administrative/probono_public_service/ls_pb_Supporting_Justice_III_final.authcheckdam.pdf.
6. John D. Feerick, Getting to the Heart of the Corporation: Effective Pro Bono Strategies, Practising Law Institute.
7. Hon. Jonathan Lippman, Remarks to Fordham Law Students (Mar. 10, 2016).
8. Martha Neil, *Following New York's Load, California Bar Officials Plan to Require Pro Bono Work for Admission*, A.B.A Journal (Mar. 13, 2015), http://www.abajournal.com/news/article/following_new_yorks_lead_california_bar_officials_plan_to_require_pro_bono.
9. Hon. Jonathan Lippman, Remarks to Fordham Law Students (Mar. 10, 2016).

John D. Feerick is a law professor at Fordham University School of Law in New York City. He served as the school's eighth dean from 1982-2002. From 2002-2004, he was the Leonard F. Manning Professor of Law at Fordham, and in 2004 was named to the Sidney C. Norris Chair of Law in Public Service.

Keeping the Privilege: What the Stock Decision Means for Clients and the State of the Intra-Firm Privilege

By Tyler Maulsby

I. Introduction

Just before the July 4th weekend, the First Department became the first appeals court in New York to address whether communications between lawyers and their firms' General Counsel are protected by the attorney-client privilege. In *Stock v. Schnader Harrison Segal & Lewis LLP*,[1] the First Department held that such communications are protected as privileged, overturning a lower court decision that had made waves in the professional responsibility community.

The intra-firm privilege issue is of huge importance both to lawyers and clients alike. It raises fundamental questions that are central to the lawyer-client relationship and, to an extent, pits the rights of lawyers against the rights of clients. Specifically, it answers a crucial question: whether a law firm is like any other business that can protect communications between employees seeking legal advice and the company's in-house counsel, or whether the equation somehow changes because the employees seeking advice are themselves lawyers who are acting in the course of representing a client?

II. The Trial Court's Decision

Stock initially retained Schnader, Harrison, Segal & Lewis ("Schnader Harrison") to represent him in his departure from MasterCard International, Inc. ("MasterCard"). According to Stock, the firm failed to advise him that his departure would significantly accelerate the expiration date of certain stock options worth approximately $5 million. The options expired and Stock, on Schnader Harrison's advice, brought an arbitration against MasterCard and its plan administrator to recover the value of the lost options.

"In other words, the Court treated the consultation with the firm's General Counsel the same as if the firm's lawyers had sought the advice of outside counsel, which the Court noted would also have been privileged."

The arbitration against MasterCard (and underlying litigation) was unsuccessful, and Stock sued Schnader Harrison for malpractice. In the course of discovery, Stock sought 24 documents reflecting communications the Schnader Harrison partner had with other lawyers at the firm, including the firm's General Counsel. Schnader Harrison argued that these documents were protected from disclosure under the "intra-firm" attorney-client privilege. The trial court disagreed, holding that the documents were discoverable under the "fiduciary exception" to the attorney-client privilege. According to the court, because Schnader Harrison, as Stock's law firm, was a fiduciary with special obligations to Stock, Stock "ha[d] a right to disclosure from his fiduciaries of communications that directly correlate to his claims of self-dealing and conflict of interest."[2]

III. The First Department's Decision

The First Department unanimously reversed, holding that the fiduciary exception did not apply and the communications at issue were privileged. The court reasoned that when the Schnader Harrison attorneys sought the advice of the firm's General Counsel, they were doing so not to discharge any fiduciary duty to Stock, but rather to "receive appropriate legal counsel about their [personal] ethical duties."[3] Thus, the Court held, "for the purposes of the in-firm consultation on the ethical issue, the attorneys seeking the general counsel's advice, as well as the firm itself, were the general counsel's real clients."[4]

The court noted that Stock was not billed for any of the time spent consulting with the firm's General Counsel and the General Counsel "never worked on any matter for [Stock]."[5] In other words, the court treated the consultation with the firm's General Counsel the same as if the firm's lawyers had sought the advice of outside counsel, which the court noted would also have been privileged. As a result, the Court held New York's version of the "fiduciary exception" to the attorney-client privilege—which had mainly been applied to trustees in the past—did not apply here.

The court also declined to adopt the "current client" exception to the attorney-client privilege.[6] (Under the "current client" exception, a law firm cannot claim privilege for internal communications relating to the client's representation, including consultations with the firm's in-house counsel, that occurred while the representation was ongoing–at least until the client is aware that it is adverse to the law firm.[7]) The court ruled that the "current client" exception would create unworkable results for both the client and the law firm and observed that courts across the country, as well as the American Bar Association, had recently rejected this exception.[8]

IV. A Rising Tide

The *Stock* decision aptly demonstrates the evolution of the law surrounding the intra-firm privilege. The lower court's ruling rejecting the intra-firm privilege was consistent with the earlier line of cases on the issue, as well as the New York federal cases which had addressed it.[9]

The First Department's decision represents a recent pivot by several courts in favor of the intra-firm privilege. These cases by and large conclude that there is no reason why the privilege should apply to discussions about potential malpractice liability between lawyers in a law firm and outside counsel but not apply to discussions between lawyers and their firm's in-house General Counsel.[10]

"Though Stock makes the intra-firm privilege enforceable under certain circumstances, it is important to understand that the decision does not create a blanket privilege for any communication between lawyers in a firm about a firm client."

Both the NYSBA Committee on Professional Ethics and the ABA Standing Committee on Ethics and Professional Responsibility have also issued opinions which concluded that lawyers are ethically permitted to seek advice from their law firm's General Counsel about potential malpractice liability.[11] While neither opinion specifically addressed the attorney-client privilege (which is an issue of substantive law and thus outside of the jurisdiction of these committees), both run contrary to the earlier line of cases which rejected privilege assertions based on the idea that a lawyer was conflicted from seeking in-house advice about potential malpractice exposure while also representing the underlying client.

V. Conclusion: Some Practical Takeaways

Though *Stock* makes the intra-firm privilege enforceable under certain circumstances, it is important to understand that the decision does not create a blanket privilege for any communication between lawyers in a firm about a firm client, or even communications between lawyers and their firm's General Counsel. Instead, the decision provides helpful guidance and holds that a communication is more likely to fall within the privilege if it meets the following criteria:

- The advice relates to the lawyer's own ethical or legal obligations concerning the matter;
- The time spent communicating with in-house General Counsel was not charged to the client;
- The attorney providing the legal advice is someone who is not directly involved in the underlying client-matter;
- The purpose of the communications with law firm General Counsel are clearly identifiable; and
- The event of a malpractice claim, if the law firm refrains from putting the communications with the in-house General Counsel "at issue."

Though not specifically discussed in the decision, a claim of privilege would also likely be affected by whether the communications with the law firm's General Counsel were kept confidential between the attorneys who needed to know the substance of the communications or if the communications were widely disseminated. Also significant would be the fact that lawyer who is consulted has the title "General Counsel," or at the very least plays that role in the firm (or has been designated to play that role in the particular case). Finally, privilege claims get easier when any adversity between the firm and the client is known to the client, particularly when the client has his or her own counsel.

From a client's perspective, it is important to understand the scope of the *Stock* decision and the contexts in which it may apply. As discussed above, not every internal communication with the law firm's General Counsel is *per se* privileged and any claim of privilege should be supported by the above factors. That being said, when assessing a potential legal malpractice claim, clients intending to use their lawyers' internal communications in order to prove liability now have a much harder job ahead of them.

Endnotes

1. 2016 NY Slip Op. 05247 (1st Dep't 2016).
2. *Stock v. Schnader Harrison Segal & Lewis LLP*, No. 651250/2013, 2014 WL 6879923 at *2 (Sup. Ct. N.Y. Co. Dec. 8, 2014).
3. *Stock*, 2016 NY. Slip Op. 05247 at *7.
4. *Id.* at *1 (citations omitted).
5. *Id.* at *2.
6. *Id.* at *12-13.
7. *See, e.g., Bank Brussels Lambert v. Credit Lyonnais [Suisse], S.A.*, 220 F. Supp. 2d 283 (S.D.N.Y. 2002).
8. *Stock*, 2016 NY. Slip Op. 05247 at *12.
9. *See, e.g., Bank Brussels Lambert*, 220 F. Supp. 2d at 286–88 (applying New York law and rejecting assertion of privilege on the grounds that lawyers' internal discussions about potential malpractice liability created an inherent conflict between the firm's interests and those of the client); *see also Koen Book Distrib. v. Powell, Trachtman, Logan, Carrle, Bowman & Lombardo,* 212 F.R.D. 283, 283-85 (E.D. Pa. 2002); *VersusLaw, Inc. v. Stoel Rives, LLP,* 111 P.3d 866, 878 (Wash. 2005) (citing cases).
10. *See, e.g., St. Simons Waterfront, LLC v. Hunter, Maclean, Exley & Dunn, P.C.*, 293 Ga 419, 427-429 (Ga. 2013); *RFF Family Partnership, LP v. Burns & Levinson, LLP*, 465 Mass. 702, 713-716 (Mass. 2013); *Garvy v. Seyfarth Shaw LLP*, 359 Ill. Dec. 202, 215 (Ill. App. Ct. 2012).
11. *See* NYSBA Comm. on Professional Ethics Op. 789 (Oct. 26, 2005); ABA Formal Op. 08-453 (2008).

Tyler Maulsby is an associate in the Professional Responsibility Group at Frankfurt Kurnit Klein & Selz P.C. He represents clients in a wide variety of professional responsibility matters including legal malpractice, professional discipline, and disqualification issues.

Teachable Moments: A Year-in-Review of Best Practices in DMCA Compliance

By Scott J. Sholder

This article has been updated from the version published in the 2016 Spring/Summer, Volume 34, No. 1 issue of *Inside* on pages 30-32, to reflect the Ninth Circuit's amended opinion in the *Lenz* case. In its revised opinion, the court deleted its proclamations that "a copyright holder's consideration of fair use need not be searching or intensive" and that the formation of a subjective good faith belief as to fair use "does not require investigation of the allegedly infringing conduct" given the "pressing crush of voluminous infringing content" online. The court also omitted its suggestion that certain types of "computer algorithms" may be "a valid and good faith middle ground" for making fair use determinations in the face of "a plethora of content." Accordingly, we have removed "key takeaway" number 3, which suggested that copyright holders stay abreast of developments in enforcement-related software, given that such software is no longer clearly relevant to the fair use inquiry.

This past year three U.S. federal courts issued rulings concerning the safe harbor provisions of the Digital Millennium Copyright Act of 1998 (DMCA) dealing with user-generated content (UGC), and provided some useful guidance both to online service providers (SPs) and content owners. A district court in New York emphasized the necessity for SPs to properly register a DMCA agent with the Copyright Office for purposes of receiving "takedown notices"; a district court in Colorado opined on who constitutes a "user" in connection with the UGC safe harbor; and the Ninth Circuit court of appeals shed light on content owners' obligation to consider fair use before issuing takedown notices to SPs. This article will briefly discuss each of these cases and will distill the practical takeaways that in-house legal departments should understand and integrate into their DMCA compliance practices and procedures.

I. DMCA § 512(c) Summary

The DMCA added to the Copyright Act of 1976, among other provisions, the Online Copyright Infringement Liability Limitation Act,[1] which provides SPs with liability "safe harbors" in exchange for compliance with certain rules. Of most import to this article is DMCA § 512(c), which applies to infringement claims arising "by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for" the SP.[2] In other words, this section provides protection for SPs (YouTube, for example) against claims of secondary copyright infringement for their storage of UGC.

"[E]ach SP that is a distinct legal entity must individually file its own agent designation, and should not rely on another related corporate entity to file a designation on its behalf or assume that it is encompassed by a parent company's designation."

To secure DMCA § 512(c) protection, SPs must satisfy a number of requirements including, among other things, expeditious removal of content after receiving a takedown notification from a copyright holder, and establishment of procedures to handle repeat infringers. For copyright holders, DMCA § 512(c) also dictates the requirements for a proper DMCA takedown notification, which must, among other things, identify the allegedly infringing material, and state that the copyright holder has a good faith belief that the material is not authorized by the copyright holder or by the law.

II. DMCA Lessons for SPs

A. Proper Registration of a DMCA Agent

BWP Media USA Inc. v. Hollywood Fan Sites LLC[3] teaches a valuable lesson in administrative compliance with the DMCA. The case addressed what may seem like a mundane formality but clearly is an important threshold to DMCA safe harbor protection in the eyes of the courts.

Plaintiffs owned the copyrights in various paparazzi photographs and sued the owner/operator of over 4,500 celebrity "fan sites" for direct and secondary copyright infringement of their photographs. Even though defendants listed their DMCA agents on their websites, plaintiffs challenged defendants' DMCA § 512(c) eligibility, citing defendants' failure to properly designate an agent "to receive notifications of claimed infringement[s]."[4]

One of the defendants—a subsidiary of defendant Hollywood.com LLC—had filed its own agent designation in late 2013, but attempted to rely on the 2008 agent designation filed by its parent company to insulate itself from infringement liability for those five additional years.[5] But a New York federal district court held that nothing in the 2008 agent designation indicated that it was intended to cover subsidiaries, and noted that Copyright Office regulations did not allow for a single designation to cover multiple legal entities.[6] The court held that the subsidiary was ineligible for DMCA safe harbor protection against any infringements occurring prior to its independent 2013 designation, explaining that SPs "can-

not retroactively qualify for the [DMCA] safe harbor for infringements occurring before the proper designation of an agent."[7]

The key takeaways from this case for SPs are: (1) SPs must register contact information for their designated DMCA agents with the Copyright Office as well as list that agent's contact information on the SP's website; and (2) each SP that is a distinct legal entity must individually file its own agent designation, and should not rely on another related corporate entity to file a designation on its behalf or assume that it is encompassed by a parent company's designation. The court did not address whether unincorporated corporate divisions or "DBAs" must register agents separately, but given that the official agent registration form allows the filer to list multiple DBAs for a single legal entity, the answer appears to be in the negative.

B. Who Is a "User" Under DMCA § 512(c)?

Assuming an SP satisfies its DMCA threshold requirements, it might then wonder whether its particular situation is embraced by the DMCA. Enter *BWP Media USA Inc. v. Clarity Digital Group, LLC*.[8] There, plaintiffs sued the owners and operators of Examiner.com—a news website featuring stories posted by independent-contractor authors—for unauthorized use of photographs in celebrity gossip stories. Plaintiffs challenged Examiner's eligibility for DMCA § 512(c) protection, arguing that "users" should exclude an SP's owners, employees, and agents, and that the site's authors were akin to employees because Examiner minimally vetted them, provided guidance on article content, and compensated authors based on web traffic.[9]

"[C]opyright holders must engage in at least a minimal fair use inquiry before sending a DMCA takedown notification."

Examiner argued its authors were "users" as opposed to employees or agents because Examiner was not involved in the authors' selection or posting of the photographs, and did not control or influence the authors' actions.[10] A federal district court in Colorado agreed with Examiner and upheld its defense, giving the term "user" its plain and natural meaning: "a person or entity who avails itself of the [SP's] system or network to store material."[11] The court noted that Congress could have more specifically defined "user" to exclude owners, employees, and agents if it had wanted to, but nonetheless such a definition was unnecessary because other sections of the DMCA exclude from safe harbor protection SPs that, themselves, are closely involved with the infringing conduct (e.g., SPs that knew or should have known about the infringements).[12]

The key takeaways from this case are: (1) SPs may still be able to utilize DMCA § 512(c)'s safe harbor even when their own employees or agents uploaded the infringing UGC on the SP's website; and (2) SPs or their counsel should take care to educate employees and agents concerning copyright infringement and take prompt remedial action upon learning of (or even suspecting) purported infringing activities within the company's ranks.

III. DMCA Lesson for Content Owners: Pre-Takedown Fair Use Inquiry

Content owners also have obligations under the DMCA. When sending a takedown notification, the DMCA requires that a copyright holder state that it has a good-faith belief that use of the material is not authorized by the holder or by the copyright law.[13] *Lenz v. Universal Music Corp*.[14] explored the good-faith-belief requirement and set some guideposts—albeit vague ones—for copyright holders to comply with the DMCA.

The plaintiff in *Lenz* uploaded to YouTube a 29-second home video showing her toddler dancing to Prince's 1984 hit "Let's Go Crazy." Universal, Prince's publishing administrator, discovered the video through an employee tasked with monitoring YouTube for Prince content, and sent a takedown notification. The employee had recognized the Prince song, and believed it to be prominently featured in the video, but he had not been explicitly instructed to consider fair use.[15] Lenz attempted to restore the video by sending YouTube a counter-notification, which Universal protested; YouTube ultimately reinstated video, and Lenz sued Universal under DMCA § 512(f), which provides content users with recourse against copyright holders for making misrepresentations in takedown notifications.[16]

In analyzing whether a content owner must consider fair use prior to sending a takedown notification, the court had to determine whether fair use constitutes an authorization to use copyrighted content or merely an infringement defense. The U.S. Court of Appeals for the Ninth Circuit held that the law clearly states fair use is an authorized non-infringing use of copyrighted materials; while it may be pled as an affirmative defense, the label "defense" is actually a legal misnomer.[17] Accordingly, the court held the DMCA requires that prior to sending a takedown notification, copyright holders must "consider fair use" and that failure to do so raises a question of fact as to whether the copyright holder "formed a subjective good faith belief that the use was not authorized by law."[18] A copyright holder will therefore be liable under DMCA § 512(f) if it ignores the fair use inquiry or merely "pays [it] lip service." Absent from the opinion, however, is any explanation of how detailed or intensive this fair use investigation must be.[19]

The key takeaways from this case are: (1) copyright holders must engage in a fair use inquiry before sending a DMCA takedown notification, although the extent

of the requisite investigation and analysis is not clear; and (2) copyright holders would be wise to provide their enforcement teams with at least basic instructions and training on how to conduct a fair use analysis, and should encourage enforcement personnel to document their processes and their findings.[20]

IV. Conclusion

These three cases highlight several practical realities of the DMCA on both sides of the Internet divide. SPs' failure to comply with the letter of the law could result in the loss of a significant defense against secondary copyright infringement claims, but assuming compliance with the statute's prerequisites, the scope of protection is broad. Copyright holders must also take care to adhere to the DMCA's requirements, including considering fair use, or otherwise risk exposure to civil liability. When in doubt, SPs and copyright holders alike should consult with copyright counsel to ensure that their rights under the DMCA are preserved.

Endnotes

1. 17 U.S.C. § 512.
2. *Id*. § 512(c).
3. No. 14-CV-121(JPO), 2015 WL 3971750 (S.D.N.Y. June 30, 2015).
4. 17 U.S.C. § 512(c)(2).
5. Hollywood Fan Sites, 2015 WL 3971750, at *4-5.
6. *Id*. at *5.
7. *Id*. at *3.
8. No. 14-CV-00467-PAB-KMT, 2015 WL 1538366 (D. Colo. Mar. 31, 2015).
9. *Id*. at *6-8.
10. *Id*. at *8-9.
11. *Id*. at *8.
12. *Id*. at *6-7.
13. 17 U.S.C. § 512(c)(3)(A)(v).
14. 801 F.3d 1126 (9th Cir. 2015). On March 17, 2016 the court, after denying a petition for rehearing en banc, issued a revised opinion which deleted several pages of analysis from the original opinion. This article reflects the substance of the updated opinion, but cites to the original opinion because the amended version is not yet available in the Federal Reporter.
15. *Id*. at 1129.
16. 17 U.S.C. §§ 512(g)(3), (g)(2)(B).
17. Lenz, 801 F.3d at 1131-33.
18. Id. at 1129.
19. The court had previously explained that "a copyright holder's consideration of fair use need not be searching or intensive" and that copyright holders did not have to actually investigate the allegedly infringing conduct due to the "pressing crush of voluminous infringing content" online. *Id*. at 1135. This language is tellingly absent from the amended opinion, which suggests that copyright holders' burden in conducting a pre-takedown fair use investigation may be higher than previously expected.
20. *Id*. at 1134-35.
21. The court's initial opinion noted that "computer algorithms" may be "a valid and good faith middle ground" for making fair use determinations, but this caveat was also removed from the amended opinion, casting doubt on whether such technological measures constitute sufficient pre-takedown fair use assessments.

Scott J. Sholder is a partner in the Cowan, DeBaets, Abrahams & Sheppard LLP litigation group. Scott represents individuals and companies in the entertainment, traditional and digital media, sports, and consumer products industries. His practice focuses on matters involving copyrights, trademarks, the right of publicity, and contractual and business disputes.

The Evolving State of Design Patent Damages and the *Apple v. Samsung* Case

By Mike Oropallo and M. Eric Galvez

I. Introduction

"Patent damages"—no two words can strike more fear in today's corporate boardroom, or in the offices of General Counsel. The proliferation of patent infringement cases (whether filed by Non-Practicing or Patent Assertion Entities or by an individual inventor or competitor), which have been exacerbated by media reports of runaway patent infringement verdicts, has elevated the issue of patent damages to the highest level executives. Evaluation of potential patent damages is no longer part of an academic exercise that is historically limited to patent attorneys, but has become an increasing part of major strategic planning discussions played out at many, if not most, businesses. Therefore, a basic understanding of patent damages, its primary underpinnings, how the remedy has evolved over the last several years, and recent developments in this fast-evolving area of the law is important to any corporate counsel.

This article focuses on the recent *Apple v. Samsung* case, a decision issued by the Court of Appeals for the Federal Circuit Court that awarded Apple design patent infringement damages for *all* of Samsung's profits for its accused smartphone. This was a decision that Samsung appealed to the United States Supreme Court, and which will be argued in the Supreme Court's upcoming term. The issue: what is the scope of design patent damages under 35 U.S.C. § 289.

This article will first explain the general framework for an award of patent damages, then outline how design patent damages differ in potential scope and breadth, then finally discuss how the *Apple v. Samsung* case is pivotal on whether we will likely see an increase in design patent infringement lawsuits, or a return to the same reasoning adopted by the Court when it limited the application of the "entire market value" theory by requiring an allocation of damages attributable to the "smallest saleable unit" of the accused product in utility patent cases (unless the patent owner can show the patented feature creates the basis for consumer demand or substantially creates the value of the component parts).[1]

II. General Patent Damages Framework

A. Reasonable Royalty and Lost Profits

Patent damages are largely governed by two statutes: 35 U.S.C. § 284 and 35 U.S.C. § 289. Additional provisions govern attorney's fees (§ 285), injunctions (§ 283), and patent marking (§ 287). Sections 284 and 289 comprise the bulk of statutory guidance on patent damages. The remaining gaps have been increasingly filled in by the numerous court decisions that have followed the technological revolution of the New Millennium, and the wave of patent infringement filings that ensued.

Section 284 provides the starting point for patent damages. It states that a successful plaintiff is entitled to "damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer." Litigants have wrestled with the question of what damages are "adequate," as the answer is not explicitly stated by this statute. As a result, two key principles have evolved.

1. Reasonable Royalty

The first is the "reasonable royalty," a somewhat esoteric and speculative issue that asks what royalty or percentage of sales of the accused product or device would have been *agreed to* in a "hypothetical negotiation." As stated in Section 284, this "reasonable royalty" sets the floor for patent damages, and is invariably the subject of expert testimony in a proverbial battle of the experts on when and what the parties would have agreed to.

Competing reasonable royalty experts begin with a presumed "arm's length" *hypothetical negotiation* between a willing licensor and willing licensee, and are guided by a list of non-exclusive factors called the *Georgia-Pacific* factors.[2] This list of fifteen[3] factors, which includes such things as the relative bargaining power of each side, has been adopted by most courts in considering what the minimum damages to be awarded might be. Reasonable royalty damages, including such things as the now defunct[4] "Rule of Thumb" or "Twenty-Five Percent Rule", have occupied litigants and judges since the concept was first penned.

2. Lost Profits

The second potential component of damages under Section 284 is that of sales and profits that are lost *by the patent owner* as a result of the infringement. Not all patent infringement plaintiffs can satisfy the threshold requirements for lost profits, but many attempt to do so as damages can be multiples greater than an award of a reasonable royalty. For example, a reasonable royalty of *five percent* on product that sells for one hundred dollars would be five dollars, whereas lost profits, which are usually calculated by determining the profit margin of the patent holder, can approach or exceed *twenty-five percent.*

A number of considerations have evolved through judicial construct over the years that provide guidance for courts and juries on what factors may be considered in awarding lost profit damages, and are now consolidated into the so-called *Panduit* factors.[5] For example, the patent owner must prove: (1) there is a demand for the patented

product; (2) an absence of acceptable non-infringing substitutes; (3) its capacity to make and supply the product sold; and (4) the amount of profit it would have made. The patent owner must further show it would have made the sales and profit "but for" the infringement. Lost profit theories can include lost sales (lost profits from sales) and price erosion (reduction of patent owner prices due to infringer competition).

These damages may be supplemented by the awarding of pre-judgment interest and an enhancement of up to three times the amount found or assessed provided certain additional findings are made (such as willful infringement). The damages may also be limited by statutes such as 35 U.S.C. § 286 (which limits the recovery of damages to no more than six years prior to the commencement of an action for infringement) and 35 U.S.C. § 287 (which limits past damages if there was a failure to mark the product at issue).

III. Treatment of Multi-Component Products Covered by Multiple Patents

A. Utility Patents

For a multi-component product that is covered by multiple patents, various principles have emerged. The "Entire Market Value Rule" provides that one who owns a patent that covers one component of a multi-component product can recover damages for the entire multi-component product, *if* the owner can show that the component at issue in fact *drives* customer demand.[6] In addressing this issue, the Federal Circuit Court has cautioned proponents of it that this rule is the exception and not the typical manner in which damages are assessed for a multi-component product.[7] Instead, the owner in such a scenario must present sufficient evidence to apportion the alleged profits or damages caused by the specific patented component (as opposed to any unpatented or otherwise patented components).[8]

B. Design Patents

Design patents represent a potential third type of damages when they are infringed—potential disgorgement of the accused *infringer's profits*. Section 289 reads:

> Whoever during the term of a **patent for a design**, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any **article of manufacture** for the purposes of sale, or (2) sells or exposes for sale **any article of manufacture** to which such design or colorable imitation has been applied shall be liable to the owner **to the extent of his total profit**, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.
>
> Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, **but he shall not twice recover the profit made from the infringement**.

(emphasis added).[9]

Recently, the Federal Circuit Court interpreted Section 289 as allowing a design patent owner to recover the *total profit* for an entire multi-component product, *without* requiring any proof of causation or that the component drives market demand for the product, let alone requiring apportionment as is required for damages in the utility patent context.[10] That is precisely what the Federal Circuit Court did in the *Apple v. Samsung* case, where it affirmed an award in favor of Apple for Samsung's total profit related to its smartphone, when the patent-in-suit was directed to certain ornamental aspects of Apple's iPhone. Taken to its extreme, this is akin to finding infringement of a vehicle's taillight design, yet awarding total profit of the infringer's retail sale price for the entire vehicle.

IV. *Apple v. Samsung*

The Supreme Court recently granted *certiorari* in *Apple v. Samsung*. These parties have been embroiled in a pitched intellectual property battle pertaining to their smartphones (with Apple in particular accusing Samsung of violating Apple's utility patent, design patent, and trade dress rights). This case is the latest chapter in the parties' ongoing patent battle.

Following a 2012 jury trial, Samsung was ordered to pay Apple $930 million. In May 2015, the Federal Circuit Court reversed a portion of the district court case on the issue of trade dress liability, and reduced the award to $548 million. In December 2015, Samsung petitioned the Court for permission to appeal the design patent issue. Specifically, to limit the design patent damages (from three design patents—one covering a black round-cornered front face for its smartphone, another covering a similar face but with a surrounding rim or bezel, and a grid of sixteen icons). Samsung took particular issue with the district court's award of Samsung's total profits, even though the design patents only covered part of the smartphone—and to which Samsung had previously objected.

In March 2016, the Supreme Court granted *certiorari.* Arguments are expected later this year. The issue presented is whether Apple's design patent profit award should be limited to profits attributable to its particular design patent component or whether the award of total profits for the entire phone was proper. In other words, whether, in cases where a design patent covers only a component of the accused product, an award of infringer's profits should be limited to those profits attributable to that component.

Apple's primary argument is based on a literal reading of the language of the 35 U.S.C. § 289 that expressly states (without condition) that damages for design patents can include the infringer's "total" profit. The legislative history of Section 289 also seems to favor Apple, as do some of the Court's prior cases on the subject.

For example, in the late 1800s, the Supreme Court issued a decision awarding minimal damages for the infringement of several carpet pattern design patents because the prevailing party could not identify what portion of the profits was attributable to the carpet design as opposed to the carpet itself.[11] Seeing this, Congress effectively addressed and rejected this apportionment approach by the enactment of the Act of 1887 (which was essentially codified as 35 U.S.C. § 289).[12] This same logic was followed by the Federal Circuit in *Apple v. Samsung*[13] and most recently in *Nordock Inc. v. Systems Inc.*[14]

"Design patent cases could be an even more lucrative target than utility patent cases for non-practicing entities making them a likely trend should the Supreme Court uphold the Federal Circuit's ruling."

One of the problems with this logic, and the Federal Circuit Court's opinion in *Apple v. Samsung*, is that the implicit necessity of a causation requirement (requiring some kind of connection between the patent infringement and the recoverable damages) is essentially rendered meaningless by such. The causation requirement is not only common in the context of utility patents as stated above, but it is at least implicit in Section 289 itself where it cautions against double recovery, stating that one cannot recover twice the profit "made from the infringement." Thus, the "total profit" was assumed to have been "from" (and thus arguably causally related to) the infringement at issue.[15] The Federal Circuit Court opinion though is silent on such, and focuses instead on the total profit regardless of whether that profit was in fact "from" the infringement.

Another potential problem with the Federal Circuit Court's opinion is that the term "article of manufacture" in Section 289 is in effect being narrowed to only mean articles sold to ordinary purchasers or consumers. For example, the Federal Circuit Court in its opinion interpreted the article of manufacture at issue to be the entire smartphone rather than the component articles themselves. As pointed out by *amici*, this interpretation is arguably inconsistent with a related statute (the Vessel Hull Design Protection Act [VDHPA]) which also uses the term "article of manufacture."[16] There, "article of manufacture" essentially means a component of the product of manufacture (the product sold to consumers). It is likely this issue will become a focal point during oral argument before the Supreme Court, as will be prior constructions and interpretations reached by other Circuit Courts that had construed and determined design patent damages decades ago.[17]

Also, the Federal Circuit Court's construction of this term would mean that for complex devices (that are common in today's world—i.e., TVs, laptops, or smartphones—and less common when the statute was first enacted[18]), one design patent covering only one component can entitle one to profits on the entire device. That is, even if there are dozens of utility patents and only one design patent covering the product, that simple latter design feature could entitle the design patent owner to the total profits for the entire product, thus transforming the design patent into what would amount to a "super-utility patent."[19] This is even though a design patent is meant to only cover the ornamental, not the functional, aspect of a product. *See* 35 U.S.C. § 171(a).

Another problem with the Federal Circuit Court's opinion is the potential for multiple recoveries. That is, how much could a plaintiff recover for its multi-component product? If each patent is entitled to a recovery of total profits, it means that the plaintiff can theoretically recover multiples of the total profit made without ever proving a link between the damages and infringement itself. It could arguably recover full profit from one party and a reasonable royalty from another party. Apple's response to this latter argument is that there are multiple procedural mechanisms such as impleaders than can be utilized to mitigate such.[20] As Samsung points out, however, it is not at all clear what the mechanics of such an impleader would realistically be, and seems, at least at this point, only a theoretical argument at best.[21]

If the Supreme Court were to correct the Federal Circuit Court's position, it would be more consistent with the "entire market value" rule as it has been interpreted by the Federal Circuit Court for guidance in determining reasonable royalty damages for multicomponent technology in utility patent cases.[22] That is, one can be entitled to damages based on the entire market only where the patented feature creates the demand or substantially creates the value of the component parts. Lost profit determinations similarly require causation—requiring proof that the defendant's infringement of the patented component was what caused the loss. This requires a patent owner to show the demand for the patented product and the manufacturing and marketing capability to exploit that demand. This means that one could receive lost profits if one could show that it sold fewer products because the competitor sold products with a similar design.[23]

From a policy standpoint, there is also the fear that design patent Non-Practicing Entities (NPEs) could now seek to extract payment from various companies who fear that potential damages could equal their entire total profit for the multicomponent product. Apple's response to this argument has been the absence of design patent NPEs doing such to date.[24] Just as utility patent NPEs were little known until large patent infringement verdicts began, one wonders if design patent NPEs might follow the same path. This is especially so given the potentially higher total profit to be obtained in design patent cases compared to utility patent cases. Design patent cases could thus be an even more lucrative target than utility patents for

NPEs, making them a likely trend should the Supreme Court uphold the Federal Circuit Court's ruling.

Thus, while Apple has a strong argument in relation to the text and legislative history of Section 289, the context in which the text appears, the potential inconsistency in construction of other related statutes, the danger in elevating design patents to a "super-utility" patent, the potential for multiple recoveries, the inconsistency with the awarding of patent damages in general, and the potential proliferation of design patent NPEs, suggests the Supreme Court is poised to rein in the Federal Circuit Court in this case, as it has done in other cases where the potential for runaway verdicts has been a factor.

V. Conclusion

The patent landscape has been changing for over a decade since patent infringement cases became more prevalent. While litigants will continue to debate the outcomes, and lawyers and their clients will mediate and negotiate resolution of these cases, the Federal Circuit Court and the Supreme Court will continue to wrestle with how patent damages should be assessed. From the client's perspective, the importance of design patents and the potential for a new wave of infringement cases will likely depend on the outcome of the Supreme Court appeal.

Endnotes

1. *See Uniloc USA, Inc., v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011).
2. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).
3. These factors are: (1) Royalties received by patent owner for licensing patent-in-suit; (2) Rates paid by licensee for the use of other similar patents; (3) Nature and scope of license (exclusivity or restrictions in manufacture or sale territory); (4) Licensor's established policy and marketing program to maintain patent monopoly by not licensing or by granting special conditions to licensing; (5) Commercial relationship between licensor and licensee (e.g., competitors versus inventor and promoter); (6) Effect of selling patented specialty in promoting sales of other products of the licensee, existing value of invention to licensor as generator of sales of non-patented items, and extent of such derivative or convoyed sales; (7) Duration of patent and term of license; (8) Established profitability, commercial success, and current popularity of product made; (9) Utility and advantages of patent property over old methods or modes; (10) Nature of the patented invention, character of commercial embodiment as owned and produced, and benefits to those who have used the invention; (11) Extent to which infringer has made use of invention and evidence probative of the value of that use; (12) Portion of profit or selling price that is customary in the business or analogous businesses; (13) Portion of the realizable profit that should be credited to the invention as opposed to the non-patented elements, manufacturing process, business risks, or significant features/improvements made by infringer; (14) Opinion testimony of experts; (15) Amount that a licensor and licensee would have agreed upon if both had been reasonably and voluntarily trying to reach an agreement.
4. *See Uniloc USA.*, 632 F.3d at 1312-1318 (rejecting 25% rule of thumb as a flawed tool for determining baseline royalty rate).
5. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (discussing *Panduit* factors).
6. *See Lucent Techs, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336-39 (Fed. Cir. 2009).
7. *See VirnetX, Inc. v. Cisco Sys. Inc.*, 767 F.3d 1308, 1326-29 (Fed. Cir. 2014) and *LaserDynamics Inc. v. Quanta Computer USA, Inc.*, 694 F.3d 51 (Fed. Cir. 2012); *see also Commonwealth Sci. & Indus. Research Organization v. Cisco Sys.*, 809 F.3d 1295, (Fed. Cir. 2015) (stating that patent damages need not always be based on smallest salable unit (and that one can also focus on licensing)).
8. *See Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014).
9. *See Nike, Inc. v. Wal-mart Stores, Inc.*, 138 F.3d 1437 (Fed. Cir. 1998) (reviewing prior history on design patent damages from the 1800s to codification of the 35 U.S.C. §§ 284 and 289).
10. *See Nordock Inc. v. Systems, Inc.*, 803 F.3d 1344, 1354-55 (Fed. Cir. 2015) (refusing to apply apportionment requirement to design patents by citing to the text and legislative history).
11. *See, e.g., Dobson v. Dornan*, 118 U.S. 10 (1886).
12. *See* Industrial Designer's Society June 8, 2016 amicus brief at p. 9-10 (discussing legislative history supporting this position).
13. *Apple Inc. v. Samsung Elecs. Co.*, 787 F.3d 983, 1001-1002 (Fed. Cir. 2015) (rejecting Samsung's arguments in part based on the text and legislative history).
14. *See Nordock Inc.*, 803 F.3d at 1354-1355 (refusing to apply apportionment requirement to design patents by citing again to the text and legislative history).
15. *See* Brief of Amicus Curiae Systems Inc. (Jan. 15, 2016), at 3-4, *Samsung v. Apple* (2016) (No. 15-777).
16. *See* Brief of Amicus Curiae Computer & Communs. Industry Assoc. (Jan. 15, 2016), at 3-4, *Samsung v. Apple* (2016) (No. 15-777).
17. *See, e.g., Bush & Lane Piano Co. v. Becker Bros.*, 222 F. 902, 904 (2d Cir. 1915) (allowing an award of infringer profits to design of piano case but not design of piano since "recovery should be confined to the subject of the patent").
18. There is also an argument that the statute envisioned simple technologies as carpets where the design can indeed drive the demand for the entire product. Here, however, the technology has moved so far ahead, and it is far too simplistic to apply what was meant to apply to carpets to smartphones. *See* Brief of 50 Intellectual Property Professors (June 8, 2016), at 3-7, *Samsung v. Apple* (2016) (No. 15-777).
19. *See* Brief of Amicus Curiae Computer & Communes. Industry Assoc. (Jan. 15, 2016), at 5-8, *Samsung v. Apple* (2016) (No. 15-777).
20. *See* Apple's Opposition Brief (Feb. 3, 2016), at 35, *Samsung v. Apple* (2016) (No. 15-777).
21. *See* Samsung's Reply Brief (Feb. 16, 2016), at 10-11, *Samsung v. Apple* (2016) (No. 15-777).
22. *See* Brief of Amicus Curiae Dell, Inc. (Jan. 15, 2016), at 14, *Samsung v. Apple* (2016) (No. 15-777).
23. *See id* at 14-15.
24. *See* Apple's Opposition Brief (Feb. 3, 2016), at 35-37, *Samsung v. Apple* (2016) (No. 15-777).

Mike Oropallo is a partner at Barclay Damon and was the former Practice Group Leader of the Intellectual Property Group at Barclay Damon. He focuses his practice on all aspects of intellectual property litigation including patents, trademarks, and copyrights. M. Eric Galvez is a senior patent associate at Barclay Damon. He has dealt with a range of issues including patent litigation, patent prosecution, trade secret misappropriation, and intellectual property due diligence. They can be reached at moropallo@barclaydamon.com and mgalvez@barclaydamon.com, respectively.

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Counterfeiting in Our Own Backyard

By Daniel A. Schnapp and Barri A. Frankfurter

I. Introduction

The United States economy loses between $200 billion and $250 billion each year as a result of counterfeiting and piracy.[1] Counterfeiting, which can be generally described as the creation of a product, often of inferior quality, using a trademark that is virtually indistinguishable from a registered trademark without approval, is a substantial threat to brands worldwide.[2] Companies that own the intellectual property rights associated with products, as well as consumers who use those products, have a significant interest in identifying counterfeit goods and preventing their sale because, among other things, the consumption of counterfeit goods can pose a serious threat to public health and safety.

Fake handbags and electronics are no longer the sole target of counterfeiters; infringers are also seeking to replicate pharmaceutical, food and beverage products, which presents a greater chance of harm to companies and consumers alike. Clearly, this presents an even greater threat to consumers, as these counterfeit products are not manufactured in accordance with quality control standards set by organizations like the Food and Drug Administration. Likewise, counterfeit goods are no longer solely manufactured abroad. Owners of trademarks and copyrights must also keep watch for counterfeit goods manufactured right here in the United States.

II. Case Study

Recently, Living Essential LLC, the owner, manufacturer and distributor of 5-hour ENERGY, was subject to a severe counterfeiting scam in which counterfeit 5-hour ENERGY was manufactured and sold within the United States.

A. Background Facts[3]

Living Essentials maintains a facility in Wabash, Indiana where it manufactures authentic 5-hour ENERGY using strict quality control standards. Living Essentials then sells 5-hour ENERGY directly or through independent brokers across the United States. In an effort to distribute 5-hour ENERGY in Mexico, Living Essentials partnered with Baja Exporting LLC and created Spanish-language labels and packaging to facilitate an entry into the Mexican market. Living Essentials sold 5-hour ENERGY to Baja Exporting LLC at a discounted price from what it charges distributors within the United States. Contrary to the agreement with Living Essentials, Baja Exporting LLC attempted to sell the 5-hour ENERGY, intended for distribution in Mexico, in the United States at American prices. Sales in the United States were proving difficult, however, as a result of the Spanish-language labels on the 5-hour ENERGY intended for sale in Mexico. Accordingly, to facilitate this improper conduct, Baja Exporting LLC swapped out the Spanish-language labels with English-language labels with the assistance of a company named Midwest Wholesale Distributors.

To take the scam even further, "Tri Mex," an affiliate of Midwest Wholesale Distributors, ordered counterfeit English-language 5-hour ENERGY display boxes. Midwest Wholesale Distributors also ordered counterfeit 5-hour ENERGY labels to shrink-wrap onto authentic 5-hour ENERGY bottles that were intended for distribution in Mexico. Then, Baja Exporting LLC and Midwest Wholesale Distributors contacted Advanced Nutraceutical Manufacturing LLC in an effort to find a manufacturer of bottles and caps that would contain the running man logo found on authentic 5-hour ENERGY bottles. Not only did Advanced Nutraceutical Manufacturing LLC find a manufacturer that could make the counterfeit bottles and caps, but it also filled those bottles with counterfeit 5-hour ENERGY and delivered cases of the product, in the amount of 75,000 bottles per day, to Midwest Wholesale Distributors' facility in California. The fake 5-hour ENERGY was brewed, labeled and packaged in a factory in San Diego, California. Ultimately, millions of counterfeit bottles of 5-hour ENERGY were sold to distributors in California, Florida, Illinois, Michigan, Pennsylvania and Texas.

"First, companies need to be cognizant of the fact that it is possible for infringers to manufacture and distribute counterfeit goods directly in the United States. Additionally, if a company determines that counterfeit products are being distributed to consumers, the company should act quickly."

Living Essentials was finally alerted to this scheme when a salesperson for Paramount Sales, an independent broker, noticed that Pitco Foods, one of the major purchasers of 5-hour ENERGY, stopped placing orders. Living Essentials conducted an investigation and obtained a box of 5-hour ENERGY from Pitco Foods and inspected the product. Living Essentials determined that the 5-hour ENERGY was counterfeit and noted that the counterfeit

bottles and caps were slightly different from the authentic bottles and caps, and the color, taste and smell of the counterfeit 5-hour ENERGY was not the same as the authentic 5-hour ENERGY. Living Essentials immediately retained private investigators and sent them to visit retail locations across the United States to inspect and quarantine the counterfeit 5-hour ENERGY. Ultimately, the private investigators confiscated over 2.6 million counterfeit bottles of 5-hour ENERGY and stored them in facilities located in California and New Jersey.

B. The Court's Decision

After the investigation, on October 25, 2015, Living Essentials initiated an action titled *Innovation Ventures, LLC, Living Essentials, LLC and International IP Holdings, LLC v. Ultimate One Distributing Corp., et al.*, in the United States District Court, Eastern District of New York against twenty separate defendants, including Baja Exporting LLC, Midwest Wholesale Distributors and Advanced Nutraceutical Manufacturing LLC. Living Essentials alleged that the defendants violated the Lanham Act, the Copyright Act of 1976 and New York state law and common law. Likewise, agents of the Federal Bureau of Investigation and Food and Drug Administration arrested a number of people in June 2015 and charged them with conspiracy to traffic in counterfeit goods, conspiracy to commit criminal copyright infringement and conspiracy to introduce misbranded food into interstate commerce stemming from the illegal distribution of the counterfeit 5-hour ENERGY.[4] Ultimately, United States District Judge Kiyo A. Matsumoto handed Living Essentials complete victory by summary judgment to the tune of a $20 million judgment, plus attorneys' fees and the cost of the investigation.

III. Practical Guidelines

A. Counterfeit Goods Can Be Manufactured in the United States

This case serves very important lessons for owners of trademarks on a going forward basis. First, companies need to be cognizant of the fact that it is possible for infringers to manufacture and distribute counterfeit goods directly in the United States. In the 5-hour ENERGY case, the counterfeit 5-hour ENERGY bottles were made and distributed from a facility in San Diego, California. What started as a scam to sell authentic 5-hour ENERGY intended for distribution in Mexico in the United States for a profit, quickly turned into something more sinister. The infringers were manufacturing the counterfeit 5-hour ENERGY without any quality control standards and then passing the product to distributors for sale to consumers.

B. Utilize Your Distributors and Sales Forces to Catch Infringers

Second, companies should utilize their distributors and sales forces to catch infringers and should also pay careful attention to ordering patterns. In the 5-hour ENERGY case, a salesperson for an independent broker uncovered the scheme because that salesperson was diligent in noticing an abnormal ordering pattern for a large buyer. In actuality, that large buyer had purchased counterfeit 5-hour ENERGY and was selling that to consumers instead of authentic 5-hour ENERGY. If the salesperson had failed to recognize the change in pattern, the scheme may have gone unnoticed for a longer period of time, which would have caused greater damage to Living Essentials and the consumers of 5-hour ENERGY.

C. Act Quickly

Additionally, if a company determines that counterfeit products are being distributed to consumers, the company should act quickly. Once Living Essentials established that counterfeit 5-hour ENERGY was available for sale to consumers, Living Essentials acted immediately to remove the counterfeit product from circulation by hiring a private investigator. The private investigator inspected and pulled counterfeit 5-hour ENERGY from the shelves of stores and was ultimately successful in seizing millions of bottles of counterfeit 5-hour ENERGY. The private investigator also assisted Living Essentials with identifying the chain-of-custody of the counterfeit bottles, which enabled Living Essentials to build a case against the infringers.

D. Use Distinct Product Packaging

Finally, the use of distinct product packaging will help protect brands from counterfeiters. Although the counterfeit bottles of 5-hour ENERGY were nearly identical to authentic 5-hour ENERGY, one of the factors that enabled Living Essentials to determine that the bottles were, in fact, counterfeit, was slight differences in the bottle design. Specifically, Living Essentials noted that the counterfeit bottles were slightly shorter than the authentic bottles, the caps of the counterfeit bottles lacked a "pimple" on top, which is found on the authentic bottles, and the "Running Man" logo that is featured on the caps of authentic 5-hour ENERGY had a different silhouette on the counterfeit bottles. Similarly, these distinctions in product packaging made it difficult for the counterfeiters to actually manufacture the counterfeit bottles of 5-hour ENERGY at the outset. The "Running Man" logo alone forced the counterfeiters to travel to Mexico and hire two Mexican companies to have the caps of the counterfeit bottles printed with the logo. Had Living Essentials not used this distinctive mark on its product, 5-hour ENERGY would have been easier to counterfeit.

IV. Conclusion

Accordingly, companies should be aware that counterfeit goods can, and are, manufactured within the United States. Although distinct product packaging can help avoid infringement to a degree, it cannot prevent it completely. If a company determines that counterfeit versions of its products are being sold to consumers, it should act quickly to rectify the situation to minimize the harm to itself and consumers.

Endnotes

1. "What Are Counterfeiting and Piracy Costing the American Economy?" U.S. Chamber of Commerce, www.uschamber.com.
2. http://www.inta.org/TrademarkBasics/FactSheets/Pages/Counterfeiting.aspx.
3. A full recitation of the background facts can be found in the court's summary judgment opinion. *See Innovation Ventures, LLC, Living Essentials, LLC and International IP Holdings, LLC*, 12 CV-5354 (KAM), 2016 WL 1273232 (EDNY March 31, 2016).
4. *See United States v. Shayota*, Case No. 15-CR-00264 (ND Cal. 2016), *see also* https://www.justice.gov/usao-ndca/pr/eleven-defendants-charged-nationwide-conspiracy-manufacture-and-distribute-counterfeit.

Daniel A. Schnapp, Esq. is a partner in the New York office of Fox Rothschild LLP. His practice includes all aspects of corporate and commercial litigation, including intellectual property matters. He can be reached at DSchnapp@foxrothschild.com.

Barri A. Frankfurter, Esq. is an associate in the Litigation Department of the New York office of Fox Rothschild LLP. Her practice also focuses on corporate and commercial litigation. She can be reached at BFrankfurter@foxrothschild.com.

Private Sector Diplomacy: Changing the Playing Field in International Commerce

By Michael Mendelson

New private international organizations and cooperative agreements are making policy and setting rules that affect not only the industry in which they operate, but the world at large. *Private sector diplomacy is, in short, changing the global playing field of international commerce and in-house counsel needs to get involved.*

Governments take years, sometimes decades to hammer out international accords such as the recent Trans-Pacific Partnership through the art of "diplomacy." Diplomacy can be a useful tool to enhance results in the international arena and build respect among nations. Unfortunately, this can be a slow and arduous task hampered by government rules of protocol and bureaucracy. Traditionally companies formed trade associations to influence public policy, legislation, and regulation. While still a useful tool, this is still a long and drawn out process.

Yet there are time saving parallel diplomatic initiatives in the private sector through which multilateral agreements are negotiated among corporations all over the globe. These initiatives are filling the gaps in the absence of laws and regulation important to their businesses, thereby inducing governments to follow along. Private sector diplomats are establishing new norms of conduct and technical standards to fight corruption, combat cyber crime, and improve supply chain transparency. Playing a leading role in this area can reduce risk, cut costs, influence government action, and adapt better than competitors to global instability. Successful companies engaging in private sector diplomacy have moved conventional lobbying, requiring new skills and a new approach to corporate strategy.

In house counsel is well suited to manage these diplomatic efforts. Legal counsel already plays a leading role in corporate deal-making strategy, structure, documentation, and compliance. Establishing an effective private legal regime requires a thorough understanding of the existing national and international legal environment, ongoing antitrust and competition law review, negotiation and drafting skills, and a solid foundation in corporate governance. Additional practice advice for counsel can be found at the end of this article.

The general public considers the making of laws and regulations to be the exclusive responsibility of governments, carried out through the actions of legislators, regulators, presidential decrees, and so on. Corporations and other private groups are seen as among the number of actors attempting to influence the development of these laws and regulations. Yet parallel legal systems or "regimes" have developed steadily and with increasing complexity and impact for centuries. These legal systems are now going global, established by private actors with common interests and assets to protect. Traditional examples of these regimes were focused on natural resources (such as forestry, oil and gas, and mining) and in corporate codes of conduct and labor standards.

Corporations today continue to develop ways to work together across competitive and international boundaries. They are filling the void in the absence of practical national or international regulation. This private sector diplomacy is often more efficient and cost-effective, yielding faster results in establishing new norms of behavior. Private legal systems have an undeniable impact not only on their industries but also on the development or reform of national and international laws and regulations. They establish norms for corporate behavior throughout the supply chain and develop technology standards and systems in use directly or indirectly by the public at large.

Technology and financial companies have become more prominent actors in the private diplomacy stage, expanding beyond developing technical standards to influencing information sharing, cyber security, and anti-corruption. A salient example is the Space Data Association (SDA), established in 2008 by the three largest providers of satellite communications services to fill the void in public law regulating satellite collision avoidance, frequency interference, and space debris. Hard-nosed competitors set aside individual competitive interests to address a real problem in their industry and in their operating environment. They signed a framework agreement and created an executive council with representatives from the founding members. A legal entity was established on the Isle of Mann to oversee administration and governance. The SDA subsequently established technical and policy working committees to develop formal information sharing on radio frequency interference and orbital trajectory, and to address longer term challenges to satellite communications in geostationary and low earth orbit. The SDA deployed a formal information sharing protocol, supported by a software tool (developed by a third party vendor) for its members. Today, over 20 satellite operators and aerospace companies are full members of the organization, and the numbers continue to grow. Recognizing the positive impact to industry and the space environment, both government agencies, NASA and NOAA, are members as well.

Another example is the Financial Services Information Sharing and Analysis Center ("FS-ISAC"), established in response to Presidential Directive 63 of 1998, an Executive

Order on critical infrastructure protection. In the absence of a government alternative, the financial institutions that created the FS-ISAC established a clearinghouse to share cyber and physical threat assessment information to protect against credible threats and improve security practices in the global financial sector. Today, FS-ISAC is a global institution, with members on all continents. With the ever increasing threat of cybercrime and the corresponding proliferation of cyber insurance policies, the U.S. Department of Treasury and Department of Homeland Security consider FS-ISAC membership for financial institutions to be evidence of industry best practice.

Multilateral institutions increasingly recognize the benefits of private sector diplomacy, and seek to develop new ways to cooperate with the private regimes that are being created. In a 2008 study, the Asian Development Bank highlighted the need to develop strategies for business, government, and civil society organizations to cooperate together to fight corruption. Other intergovernmental organizations like the International Telecommunications Union provide fora and committees to include or encourage the participation of the private sector in the development of regulations and standards.

Private legal regimes should not be viewed as substitutes for government laws or international treaties. Rather, they are complementary systems, presenting a more flexible, adaptable, and targeted complement to their public counterparts. A United Nations Committee, for example, may take 20 years to reach a consensus on the feasibility of a study to seek the improvement towards a debate, etc., resulting in little or no action at all. A group of private companies can come together to hammer out a solution across financial, cultural, and national boundaries in less than a year, and revisit their new structure on a regular basis to ensure it is meeting the needs of the member companies.

To illustrate the point, one need only look at the effect of codes of conduct on supply chain integrity and efficiency. The overall reduction in trade barriers has increased global flow of commerce and allowed multinational companies to establish low cost, multinational supply chains. However using low cost, developing world suppliers requires the purchaser to place greater scrutiny on quality control, anti-bribery and corruption, and labor and environmental standards. Failure to do so can severely damage brand reputation, loyalty, and profits as many companies have discovered.

Through multinational cooperation, business has established a private legal regime affecting not only the bottom line by managing risk of quality and product liability, but also areas traditionally thought of as the province of government agencies such as security, labor, and environmental standards. By establishing guidelines for corporate codes of conduct that companies now regularly pass through to their suppliers, private institutions such as Business for Social Responsibility and Transparency International have had a significant impact in improving supply chain integrity. As a result, vendors wishing to supply member multinational companies must change their practices. A playing field is established that sets clear expectations for these vendors and spreads the cost throughout the supply chain.

As more companies embrace these voluntary regimes, the rules develop a binding effect. Enforcement of these regimes relies on corporate "peer pressure," rather than any direct powers to sanction or prosecute. To play, you have to follow the rules. To influence the rules, you have to join. In this regard, private sector diplomacy establishes legal regimes that mirror international treaties and organizations. In the public context, the more countries that sign and ratify a treaty, the more it becomes binding on the international community as a whole. In the private sector context, the more companies that participate or agree to a set of rules, the more it becomes binding on entire industries. By filling the void in the absence of public laws or treaties, private sector diplomacy establishes regimes that begin as voluntary but over time become, de facto, mandatory. It is the private sector equivalent of customary international law.

Regardless of one's view of the intentions of corporations, there can be no denying that voluntary, cooperative, international legal regimes established through private sector diplomacy exert influence on national and international law and behaviors. Instead of reacting to proposed treaties and legislative bills, they take the initiative, self-regulate, and frame the debate. These regimes will continue to proliferate as new industries develop and challenges from global instability get more complex, particularly in the areas of anti-corruption, supply chain integrity, cyber security, and sustainable development. The groundwork established by private legal regimes can influence the behavior of companies outside of the regime by establishing standards of conduct or best practices.

Private sector diplomacy operates on a global scale. Multinational companies are not waiting for governments to act on issues that will affect profitability. They are deploying their private diplomats to take action and international commerce is changing rapidly as a result. Private sector diplomacy employs skills comparable to its government counterpart—a solid foundation in the state of national and international law, history, cross-cultural, and language skills—and significant negotiation experience. Private sector diplomats must also be business savvy and able to weigh the financial impact of proposed cooperative agreements on the bottom line. These skills are increasingly important to a company's future in the global marketplace. Companies need to include diplomacy in their strategies and to develop multidisciplinary teams with these skills to participate on the front lines of global commerce.

To succeed on the international stage in today's uncertain environment, companies both large and small need to understand what private diplomatic efforts,

agreements, or institutions are being established in their industries. Ignore them and fall behind. Embrace them, set the stage for success.

Practical Advice for In-House Counsel

- Work closely with line business leaders and government relations to define the regulatory deficiency to be addressed through cooperation.
- Understanding the geopolitical and cultural landscape where you are trying to effect change is just as important as understanding the existing legal and regulatory regimes.
- Identify the major stakeholder companies experiencing the same or similar concerns.
- Establish a framework for negotiation and define desired output and outcomes with the major stakeholder companies.
- Conduct a thorough antitrust review of the proposed cooperative arrangement and advise internal stakeholders accordingly.
- Develop a plan to engage national governments and international organizations to shape the debate on comparable government regulation.
- Address the form of cooperation to be established: formal vs. informal/ad-hoc; whether to establish a legal entity for the cooperative framework and in what jurisdiction; rights, remedies, and enforcement mechanisms applicable to the participating entities.
- For international small and medium-sized enterprises ("SMEs"):
  - ¤ Identify the major private regimes in your industry.
  - ¤ Know the standards being established and how they will affect your company's bottom line.
  - ¤ Evaluate in what regimes, programs, and organizations active participation will benefit the company's future.

Michael Mendelson is an international business attorney and experienced general counsel in the Greater Washington-Baltimore area. He is a recognized expert on international technology law issues who has been interviewed on National Public Radio and served as a lead negotiator in the establishment of the Space Data Association.

Handling and Managing a Joint Venture In-House

By Joseph V. Cuomo and Allison W. Rosenzweig

I. Introduction

The Vice President of Business Development stops by your office. She just met with a company that can provide additional resources and technology to supplement your business and help your company enter new markets for a new product she envisioned. She wants you, her in-house counsel, to prepare to enter into a joint venture with this company. What do you do now?

A joint venture involves two or more parties that pool their resources in a collaborative effort to pursue business opportunities and overlap for a specific, or limited, purpose or a defined time frame. In today's competitive marketplace, many companies rely on joint venture arrangements to gain access to new markets, technology, assets or resources. Joint ventures allow parties to share in the risks and rewards of a new business pursuit.

This article will guide you through the process of entering into a joint venture, from concept to final signed documents, including working with and supervising outside counsel. It will outline the preliminary considerations that you should think through, specifically: a confidentiality agreement, due diligence, and a letter of intent. Further, it will detail the factors for you to consider when structuring the venture and working through the joint venture agreement.

II. Protecting Your Business Information With a Confidentiality Agreement

Parties to a joint venture usually exchange confidential information and, therefore, should protect that information and its business by entering into a confidentiality agreement. Confidentiality agreements—also known as nondisclosure agreements—are one of the most common, and necessary, agreements entered into by business entities. Such an agreement helps protect financial records; trade secrets; intellectual property; business plans and practices; personnel, customer, and supplier records; methods; inventions; technical information; drawings; and other proprietary information.

"If the joint venture transaction is significant, a more thorough investigation of the prospective partner may be needed."

Three key factors to consider when preparing or reviewing a confidentiality agreement are mutuality; explicit identification of the information that the parties seek to protect; and the term of the agreement. Mutuality is desired because mutual agreements typically provide each party with equal protection for its proprietary information. Explicit identification of what information is protected reduces the risk that the agreement will contain loopholes. The term of the agreement sets the parties' expectations regarding the length of time each will be subject to the agreement's restrictions. A term of at least two years is strongly recommended, but a term of five years is preferable.

"Factors that must be considered when determining the appropriate structure for the deal include business objectives, limitation of liability concerns, contributions of the parties to the venture, tax treatment and ease of termination."

It is important to have a confidentiality agreement in place before the exchange or disclosure of confidential information that typically takes place while the parties conduct due diligence. For in-house counsel, it is extremely important to communicate with the management team and the business people on the deal to determine the specific information that needs protection in the confidentiality agreement.

III. Evaluating Your Potential Venture Partner by Conducting Due Diligence

Parties should conduct due diligence by researching their potential joint venture partner. This process entails the exchange and disclosure of business information to determine if your prospective co-venturer is the "right" partner. The extent of the due diligence process depends on the nature of the deal. If the other party is potentially contributing technology, it may be important to receive, research and review the company's patent and trademark filings. If the other party is potentially contributing capital, it may be important to review the company's financial statements. The due diligence process is used to gather critical facts and information about the prospective partner which are most relevant to the joint venture.

Other information about the company can be obtained independently through several platforms. Public databases, such as Westlaw and LexisNexis, and Internet searches, such as Google, are just a few of the many resources available for this task. Additionally, rather than limit independent due diligence efforts to public searches, parties should always consider supplementing their investigations with a reference check and, in some circumstances, a private investigation. If the joint venture transaction is significant, a more thorough investigation of the prospective partner may be needed.

In-house counsel should coordinate the efforts needed for the due diligence process with the different departments of his or her company. Not only will the different departments be helpful in receiving and examining the information from the prospective partner by providing specialized knowledge, but they will also be crucial in collecting the information that will need to be given to the prospective partner.

IV. Negotiating the Basic Framework Through a Letter of Intent

Parties contemplating a joint venture should prepare a letter of intent. The letter of intent, which is typically drafted to be a non-binding agreement with certain binding provisions, is a preliminary document that outlines the basic framework and material terms of the deal. It is usually expected that the letter of intent will be superseded by a definitive written agreement that will govern the venture's operations. Some of the provisions that may be negotiated up-front during the letter of intent stage include capital commitments, ownership percentages and overall business strategy. The letter of intent serves the functions of vetting the key issues upfront and centralizing pertinent discussions into a single document for convenient review. Additionally, this document is used to define the rights and obligations of the parties while the definitive agreement is being negotiated, as well as establish a time frame for closing the transaction.

"The key to successfully integrating outside counsel in a joint venture transaction is communication."

At the letter of intent stage, in-house counsel typically handles the deal independently or takes the lead if outside counsel is involved. After this document has been executed, outside counsel is often more heavily involved to provide the necessary manpower or expertise. Staff size of the in-house department will play a critical role in the decision as to how to use outside counsel, as well as the division of the remaining responsibilities of completing the deal. Many in-house departments are small, and the role as general counsel is compounded with other non-legal management roles. If that is the case, outside counsel will be crucial at this stage in the transaction to determine the structure of the joint venture and to draft the definitive joint venture agreements.

V. Structuring the Joint Venture

There are several ways to structure a joint venture. One common form is that the two entities remain separate but enter into an agreement to overlap for a specific purpose or project. In this model, the philosophy is that the sum of the efforts of the two entities becomes greater than its parts. Entering into a specific market or providing a specific good or service may not have been possible for one entity, but by combining efforts with another entity that has the missing piece of the puzzle, the two companies can enter the market much quicker. Another common structure for joint ventures is that the two entities create a new entity.

Factors that must be considered when determining the appropriate structure for the deal include business objectives, limitation of liability concerns, contributions of the parties to the venture, tax treatment and ease of termination.

At the structuring stage of the transaction, outside counsel can play an important role if there are complex legal issues, such as tax or regulatory. Outside counsel should meet with in-house counsel and the company's management team, and potentially some of the employees, to get an overview of the joint venture and the legal aspects of his or her assignment. The meeting should also establish what in-house counsel expects from the outside counsel during the transaction.

"It is important that outside counsel learn the client and the business to be able to sustain a trusting relationship."

The key to successfully integrating outside counsel in a joint venture transaction is communication. In-house and outside counsel now have a shared client, and it is imperative that they each know their role and set expectations and goals right from the beginning. Depending on the budget, staff size, special expertise of in-house counsel and the knowledge needed to complete the transaction, in-house counsel may retain some of the workload; in-house counsel may decide to retain essentially the entire matter and use the outside counsel solely for consultation purposes; or in-house counsel may delegate the matter entirely to outside counsel. In all of these scenarios, communication and the clear delineation of each counsel's role is extremely important.

In-house counsel must manage outside attorneys and ensure that the deal stays within budget, consistent with the business strategy, and, often most importantly, on track. In-house counsel also must serve as the liaison between the management team and outside counsel. Because the in-house lawyer has pre-existing knowledge of the company, its structure, policies and procedures, culture and goals, he or she can help shorten the learning curve by communicating this information to outside counsel, which can effectively keep the fees in check. It is important that outside counsel learn the client and the business to be able to sustain a trusting relationship. Ultimately, if outside counsel and in-house counsel differ in opinions, the in-house lawyer, in consultation with company management, should have the final say on the course of action that is taken and that aligns with the business goals of the company.

VI. Working Through the Joint Venture Agreement

The governing agreement is fundamental to any joint venture, which—depending on the structure of the venture—can take many forms, including: a shareholders' agreement, an LLC operating agreement, a partnership agreement, a development agreement, a licensing agreement, or a marketing agreement, to name a few. Although distinguishable, these joint venture agreements address many of the same issues.

The most significant common issues to include in the agreement are: the scope or purpose of the venture; the business objectives; geographic area or markets to be covered; the type of product or service to be provided; identification of the parties and point person for each side; responsibilities of each party; assignment or license of technology or intellectual property; ownership of jointly developed products or intellectual property; compensation or sharing of profits and losses for each party; sharing of the costs and risks of the venture; contributions of each party; management of the venture; restrictions on transfers of interest in the venture; right of first refusal for future ventures; reversion rights; dispute resolution method (arbitration or mediation); term and termination of the relationship; non-competition or exclusivity conditions and non-disclosure requirements.

Although outside counsel will generally handle the negotiation of the terms of the definitive deal and the drafting of the agreements, in-house counsel's role should not end at this stage. In-house counsel works closely with the management team and has a deep understanding of the business. As such, in-house counsel should continue to serve as the conduit between the company and outside counsel. Additionally, in-house counsel should continue to provide essential support to outside counsel by communicating and disclosing additional resources and information as the deal proceeds towards a closing. In-house counsel should also continue to manage the strategy, budget and timeline closely. It is essential for outside counsel and in-house counsel to be on the same page and have open communication as they navigate the transaction towards closing together.

VII. Conclusion

Joint ventures provide businesses with a wide array of opportunities, but their variations and complexities can be intimidating. Keeping the communication open, both between in-house counsel and the different departments of his or her company, as well as between in-house counsel and outside counsel, can create a team approach to effectively tackle the process. By giving careful thought to all of the considerations highlighted above, in-house counsel can safeguard against many of the issues that may arise.

"Top 10" Joint Venture Considerations

1. A good agreement cannot fix a bad relationship. It is essential to consider the parties' compatibilities.
2. The motivation and commitment of each party will have a direct impact on the venture's success or failure.
3. The contributions of each entity should be defined in a straightforward and clear manner because convoluted responsibilities will prove problematic.
4. *Breaking up is hard to do*,[1] but prenuptial-type provisions can serve to relax the difficulties of dissolution.
5. It is crucial for each partner to have a long-term perspective because one-night stands rarely work.
6. Clear and realistic objectives backed by a detailed business plan are a recipe for success. Remember, "He who fails to plan, plans to fail."[2]
7. Impasse resolution procedures should be implemented to avoid deadlocks, which can be fatal to joint ventures.
8. Due to the issue-prone nature of intellectual property (IP), IP should be handled more judiciously than tangible property.
9. Conflicts-of-interest should be considered and protected against beforehand.
10. Parties always need a channel or mechanism for open and frequent communication.

Endnotes

1. Breaking Up Is Hard To Do, song written by Neil Sedaka and Howard Greenfield, and recorded by Neil Sedaka.
2. Winston Churchill.

Joseph V. Cuomo is co-chair of the Forchelli, Curto, Deegan, Schwartz, Mineo & Terrana, LLP's Corporate and Commercial Department. He concentrates his practice on the representation of private and public companies and emerging businesses with respect to business law and transactional matters. He serves as "outside" general counsel to numerous private middle market companies. Contact him at jcuomo@forchellilaw.com.

Allison W. Rosenzweig is an associate in Forchelli, Curto, Deegan, Schwartz, Mineo & Terrana, LLP's Corporate and Commercial Department. She concentrates her practice in commercial transactions, and general corporate and commercial representation. Contact her at arosenzweig@forchellilaw.com.

Conducting Mistake-Free Internal Fraud Investigations

By Katherine Lemire

1. Introduction

Every general counsel on the planet dreads the F word.

Fraud.

Unfortunately, whenever money changes hands there is the potential for fraud, even within the most buttoned-down organizations.

The scenario is not hard to imagine in your own company. Perhaps an employee has noticed a series of red flags—irregularities that indicate potential wrongdoing perpetrated by someone or some group of people on the inside—and she is bringing the matter to your attention. You are not entirely certain, but you suspect a case of internal fraud.

As lead counsel, what do you? Is there a playbook on the shelf for this sort of situation?

One thing should be clear from the onset. Decisions made at the very beginning of an internal fraud investigation—whether considerate or careless, systematic or sloppy—will either enhance the possibility of a swift and successful resolution, perhaps even internally, or they will pave the way for a costly and drawn out legal saga that could paralyze your company and ruin its reputation. To avoid either scenario, here are some practical steps to consider that will help you avoid making critical mistakes should you find yourself in the midst of a suspected internal fraud case.

2. Take Control

As your company's chief lawyer, you should be involved from the outset of any internal investigation. Potential fraud is a hot potato that anyone from a mid-level manager to the CEO will be looking to get off his or her plate, so the issue is likely to find its way to you early in the going. This is a good thing. The sooner you are involved, the sooner you can begin taking steps that will protect the company and yourself. If you do not have a history in criminal law you might benefit from a few pointers on what to do next.

Clear your desk and make this the top priority. Nothing is more important than getting to the bottom of a serious, potentially criminal allegation as efficiently and discreetly as possible. Some reports estimate that a single tip leads to uncovering misconduct in nearly half of all fraud cases, with the majority of the tips coming from employees. The numbers are on your side if you act early, so make sure you give this urgent matter the attention is requires.

3. Maintain a Small Circle

At the beginning of an internal fraud investigation, it is wise to limit the number of people who know about the inquiry to a need-to-know basis. This is true for several reasons. First, it protects the organization and reputations of those accused. Chances are you are looking at a relatively contained act by a single individual; therefore, no need to alarm your clients and customers with information that would reflect poorly on the company. Moreover, there is always a chance that the allegations are false. As such, discretion avoids unnecessary reputational damage and cuts down on potential litigation by the falsely accused. To put it more bluntly, leaking unsupported allegations that would not stand up to a lawsuit could seriously affect your company's bottom line.

Maintaining a small circle is even more important should the opposite prove true. If you are dealing with pervasive fraud involving a ring of people across multiple departments within the company, word spreading about an investigation could sabotage your inquiry before it begins in earnest. Making sure that only a small number of trusted people know about the issue lessens the risk of tipping off perpetrators who might then cover up or destroy evidence—a primary concern in any internal investigation.

4. Preserve All Evidence

The preservation of key information (documents, financial records, emails, etc.) is absolutely paramount to establishing proof of potential fraud. Nothing is more important to getting to the bottom of the matter and establishing proof for potential prosecution. It also protects your firm against allegations of not fully cooperating—or worse, a cover-up.

Key evidence is sometimes lost unintentionally through routine server maintenance or data purges that are designed to save storage space. Other times, perpetrators erase evidence intentionally to conceal their tracks. Either way, the onus is on the company (and you by extension) to prove that lost evidence was innocent and not nefarious. Either way, you should be acutely aware that disappearance of information critical to the case has the potential to appear suspicious regardless of the cause.

"One of the most important decisions you will make is selecting an external firm to manage the investigation."

You should strongly consider including someone discreet and dependable, such as a trusted manager in the IT department, who can help your investigative team

ensure data integrity. It is best not to alert your entire IT hierarchy to the investigation as others in the group might be implicated down the road, or deemed to be potential witnesses. Withholding key pieces of information, especially the identities of suspected wrongdoers, is also essential. Having a knowledgeable IT person in your corner to help preserve digital fingerprints could be invaluable to the investigation and eventual prosecution of those responsible.

5. Know Your Own Rules

Following your own internal rules and regulations will help you avoid a bungled investigation or retaliatory litigation. Before questioning any personnel, make sure you thoroughly review your firm's policies and procedures including HR guidelines, hiring contracts, NDAs, etc. What specific rules and regulations were employees made aware of during hiring and through routine training? What rights are they afforded by their employment contracts or through collective bargaining agreements, and should you remind them of those rights before questioning? A complete understanding of your own rules will protect the company from the perception of violating employee rights, while at the same time helping to establish a legally sound roadmap for the investigation.

Understanding the law is also a must. Reporting requirements and employee rights differ among jurisdictions, and vary depending on the severity of the suspected crime. The law also holds publicly traded companies to different standards. Having a firm grasp on all legal requirements and regulations is imperative.

Another tip is to review the reporting requirements for your insurance carrier as some policies require early reporting of suspected criminal activity. Mistakes in this area could cost your company many thousands of dollars in unreimbursed legal bills.

6. Bring in the Right Outside Help

One of the most important decisions you will make is selecting an external firm to manage the investigation. Bringing in a third party offers many benefits such as avoiding conflicts of interest, providing outside perspective, and offering investigative tools and expertise you simply do not have. Hiring outside counsel offers the added protection of attorney-client privilege, which an investigations firm does not.

However, maintaining cost consciousness is also important to your company's bottom line. Expenses stemming from fraud investigations conducted by outside counsel could easily exceed the losses created by the fraud itself if you are not careful. For instance, if you hire outside counsel, make sure that you are not paying several hundred dollars an hour only to have first-year associates conduct much of the investigative work. A better option may be to engage an investigative firm with significant law enforcement background (former prosecutors, agents, forensic accountants) through your outside counsel. The costs will likely be substantially less, but you will typically end up working directly with senior people who have preexisting relationships with law enforcement that may come in handy. Hiring an investigations firm through outside counsel also extends attorney-client privilege to their investigative work product. Whatever direction you decide to go in choosing outside representation, keep an eye on costs throughout the process. These types of investigations often chase leads down rabbit holes that can end up nowhere, resulting in many thousands of dollars in cost overruns.

7. Inform Law Enforcement at the Appropriate Time

Figuring out the appropriate time to bring law enforcement into your investigation can be tricky. Once you have handed over the investigation to the authorities, it is often impossible to retake control. Doing so too early could prevent getting to the bottom of the problem before your company incurs irreparable reputational damage. On the flip side, waiting too long might result in problems with the authorities, up to and including the prosecution of the case. Employing the advice of counsel with proven law enforcement can shed light on this decision and help determine the right point in your investigation to alert law enforcement.

If your ultimate goal is to involve law enforcement, it is generally best to make considerable internal headway toward untangling the facts underlying the alleged wrongdoing. Law enforcement agencies are overtaxed and may never seriously consider your situation if they must first spend significant resources and time figuring out what happened. By conducting an internal investigation and being able to present a clear progression of facts to law enforcement, you will be more likely to get their attention. However, at the point when substantial material evidence is uncovered, it is best to move quickly to involve the authorities so that the evidence can be preserved in such a way that it will stand up to prosecution.

8. Conclusion

Uncovering, then getting to the bottom of suspected fraud within your organization, is tricky enough without compounding the situation by making easily avoided mistakes. Implementing these important steps will enable you to act quickly and with confidence toward the best possible resolution of your situation.

Katherine A. Lemire is president of Lemire LLC, a compliance and risk solutions firm based in New York City. Previously, Ms. Lemire served as a federal prosecutor in the Southern District of New York, as a prosecutor in the Manhattan District Attorney's Office, and most recently as counsel to former New York City Police Commissioner Raymond W. Kelly. Her email is klemire@lemirellc.com.

What Food Company Counsel Need to Know and Need to Do in Light of Increased Criminal Enforcement Risk for Food Safety Violations

By Maggie Craig and Stefanie Fogel

I. Introduction

Food company executives live in an increasingly uncomfortable and high-risk environment where proof of intent, actual knowledge of, or participation in an underlying non-compliance with the Food, Drug, and Cosmetic Act ("FDCA") is not required to establish criminal liability for violations of the FDCA. The current landscape reflects a trend towards increased enforcement against both food companies and individuals in management roles related to food-borne illness outbreaks and adulterated foods, particularly in cases of egregious behavior, negligence, and knowing violations of sanitation and adulteration regulations. Enforcement also follows where management should have known, or could have stopped, the violation. Under current law (known as the "Park Doctrine"), criminal liability does not require a showing of intent or knowledge with respect to the underlying violation.[1] With the alarming increase in the spread of food-borne illness through the global supply chain, commitment of the U. S. Food and Drug Administration (the "FDA") to focus on food safety, and the 8th Circuit recently upholding the conviction of two food executives related to distribution of adulterated eggs,[2] the risk of enforcement against corporate individuals is real. Below are best practices that food executives should consider in implementing robust compliance and mitigation programs.

II. Best Practices – What Should In-House Counsel Do?

In light of the strict liability standard and indications of increased individual criminal enforcement trends, food executives are well-served in implementing certain best practices to help avoid regulatory enforcement or, should the situation present, to be prepared for such enforcement. In-house counsel need to be pro-active in alerting their business partners who are responsible for their company's supply chain of best practice approaches and work with management to develop governance protocols to ensure appropriate practices are implemented. Taking these steps serve the twin goals of protecting consumer safety and avoiding legal liability, each of which is crucial to protecting the company's most important asset—its brand.

Build a Compliance Plan That Meets FDA & DOJ Standards

As a senior manager, setting a "tone from the top" and actively supporting compliance efforts is an important step in implementing an effective compliance program. To that end, in-house counsel should work with senior management to ensure that the company has implemented a comprehensive compliance plan that adheres to the FDA and Department of Justice ("DOJ") expectations, paying particular attention to shifts in guidance or public enforcement comments. If the FDA or DOJ should come knocking, demonstrating that company controls are in line with the authorities' expectations will help mitigate and potentially avoid penalties.

Below are key areas that company lawyers should review with management:

- **Ensure GMPs are up to date and actually in practice**. Failure to implement good manufacturing practices ("GMPs") is not only a regulatory violation in and of itself, but lack of GMPs may be used as a reference point for regulators to infer lack of management oversight on foundational food safety matters.
- **Implement FSMA Preventative Controls**. The FDA finalized the Food Safety Modernization Act ("FSMA") Preventative Controls Final Rule with an implementation date of September 2016 for most companies. In conjunction with the rollout of Final Rules, the FDA has committed to increased oversight of registered food facilities.
- **Implement FSMA Foreign Supplier Verification Program ("FSVP")**. The FDA finalized the FSMA FSVP with an implementation date of May 2017. While FSVP may be an added regulatory burden, it also protects companies engaging with foreign suppliers to ensure food entering the U.S. is safe. The FDA has not been shy to issue warning letters to food manufacturers for failing to ensure their suppliers meet required GMPs or specifications, also citing the Park Doctrine as a basis for maintaining oversight over suppliers and thus implicating a potential willingness for the FDA to assert vicarious liability over suppliers.[3]
- **Schedule and conduct routine audits**. Proactive audits, both internally and of third party providers, is key, but do not place ultimate trust and undue reliance on audits. Beware of third party falsifications that could misconstrue or misrepresent the actual audit results.
- **Maintain documentation**. Maintenance of records is not only required under FSMA, but thorough and accurate records will help demonstrate a robust

written and implemented compliance plan for any government led inspections or investigations. Robust records may also help mitigate potential penalties if the records demonstrate the company did in fact have a compliance plan despite rogue acts by employees or one-off incidents. Simply put, in-house counsel are wise to caution management that, from a regulator's point of view, "if it isn't documented it didn't happen" or, at least, that without accurate and contemporaneous documentation, it becomes a much harder uphill climb to vindication.

- **Maintain active oversight and monitoring**. An effective compliance program is perpetually ongoing and requires active review and monitoring by senior management. Simply delegating activities to lower level employees without management oversight is not an effective defense if controls break down in the supply chain.

Properly Staff and Train the Supply Chain

Effective risk mitigation requires collaboration and compliance at all levels of the supply chain. Company counsel should be at the table with senior management to guide their decision making as part of a culture of compliance. Robust compliance requires that companies:

- **Properly allocate resources and budget**. Resources and budget may be scarce, but senior management must conduct proper risk assessments to guide judgments as to the proper allocation of capital to address asset replacements, broken parts, outdated equipment, and upgrades, to mitigate consumer safety risks.

- **Collaborate cross-functionally and hire appropriately.** Work together both within and across divisions and specialties to identify skills required for different job functions that impact product quality and consumer safety, and ensure roles requiring particular expertise receive input from those with the same expertise. Once job descriptions are formulated, hire employees with proper experience and abilities.

- **Create a clear reporting structure and clearly define employee responsibilities**. While delegating authority is not a defense under the Park Doctrine, companies should identify roles and responsibilities for each function in the supply chain to help avoid gaps in reporting and to put employees on notice as to expectations.

- **Educate senior management on crisis management and potential individual criminal liability**. Preparation and awareness is a critical foundational step to mitigating risk. Executives are charged with management of the whole, and therefore must be aware of both company and individual liability risks. Understanding how to handle incidents of both corporate and individual risks will help management navigate potential pitfalls.

- **Create a culture of training**. Conduct trainings at all levels, and where appropriate, conduct tailored training for specific functions, such as food safety. Senior managers should take part in subordinate trainings.

Address Issues of Non-Compliance

If and when compliance breaches arise, company counsel need to help guide management to have protocols to actively address such issues and implement remedial action plans. Anticipating potential issues in advance, having a crisis response plan in place, and proactively confronting gaps or warnings, will help companies move efficiently through the matter, whether minor or major. Guidance to management includes:

- **Quickly respond to notices of violation or potential violation**. Do not simply delegate responsibility and assume an issue will be addressed. Take an active role in immediately addressing violations or risks of violation. Authorities will not accept an empty delegation defense.

- **Do not ignore previous the FDA warnings**. If the FDA issues a warning or otherwise identifies a violation, acknowledge and remediate the issue and document the activities undertaken. Failure to do so can result in willful disregard and evidence that management ignored known violations. This in turn can result in both increased penalties upon enforcement, as well as increased risk to consumers.

- **Have a crisis response plan and communications protocol in place**. When incidents arise, senior management should take appropriate and immediate steps to protect consumers, the company, and executives as necessary. Issuing communications pursuant to an appropriate protocol will help maintain privilege as the company determines the extent of the incident and associated reporting requirements.

- **Conduct thorough, properly scoped, and properly staffed internal investigations**. While companies are not obligated to "search for dead bodies," or turn over every stone to find problems unrelated to the issue at hand, investigations must be broad enough to address the issue, but should be narrow enough to avoid losing control of splintering or offshoot derivative activities. Throughout the investigation, maintain documentation on root cause analysis and remedial actions, including any interim mitigation measures. Assume that if not documented, authorities will assume it never happened.

- **Prepare to implement corrective measures**. After conducting an internal investigation, implement and monitor appropriate remediation and consistently discipline employees as appropriate, in compliance with established HR policies.

Be Prepared for Government Investigations

If known or unknown issues of non-compliance escalate into a government investigation, adhering to the recommendations below in advising management will help position the company to both defend itself and cooperate with authorities at the same time.

- **Cooperate with government regulators**. Be cooperative and do not bury facts. While companies need not over-volunteer information, they must be responsive to relevant requests. Hiding or misrepresenting facts will likely result in unfavorable relationships and increased penalties.
- **Retain outside counsel**. Outside counsel plays a key role not only for substantive legal advice, but to maintain privilege to the extent privilege applies. While privilege may be difficult to maintain in many government investigations, involving outside counsel provides the best opportunity to protect communications when conducted properly.
- **Understand who owns privilege and who can waive privilege**. In U.S. corporate investigations, the corporate entity owns the privilege, not the individual. In some circuits, corporate management speaking/acting on behalf of the corporate entity (e.g., officers and directors) may waive privilege. Thus corporate executives must be particularly careful when communicating with third parties. Counsel must also be mindful of issuing appropriate Upjohn warnings[4] to individual managers, reiterating to individuals that as in-house counsel, the privilege belongs to the company, and that counsel (whether in-house or outside) to the company represents the company and does not represent the individual.
- **Consider Yates' "all or nothing."** The Yates Memo[5] prescribes an all-or-nothing approach to cooperation credit. As companies determine what and who to disclose, they should consider implications of the Yates Memo that *all* facts must be disclosed to be considered for cooperation credit. Prosecutors may leverage the Yates Memo to demand details, which may increase pressure on corporations. Corporations must also consider whether providing all information requires waiving privilege.

Clearly, in the current legal and political environment, consumer product safety violations, and in particular, food safety violations, are fertile areas for criminal investigation and enforcement. Moreover, the government has tools at its disposal that put companies and individual executives at significant risk of criminal sanctions when supply chain controls break down and consumers face injury under their watch. Counsel can help mitigate these risks by being pro-active and guiding management towards best practices. The result is a win-win-win—for the company and its brands, for individual company executives, and for public safety and welfare.

Endnotes

1. Under the Park Doctrine, a corporate official with responsibility for supervising subordinates and authority to prevent or correct violations as a responsible corporate officer may be held criminally liable for misdemeanor offenses—without a showing of affirmative wrongful action, knowledge, or intent—for a subordinate's violation of a public welfare statute (here, FDCA) that contains no *mens rea* requirement and that carries only misdemeanor penalties. *See U.S. v. Park*, 421 U.S. 658, 673-74 (1975).
2. On July 6, 2016, the 8th Circuit upheld the sentencing of Austin and Jack DeCoster related to a 2010 outbreak of Salmonella enteridis linked to eggs from the DeCosters' Quality Egg farms. Both DeCosters were sentenced to three months imprisonment after pleading guilty as responsible corporate officers of Quality Egg to misdemeanor violations of the FDCA for introducing eggs adulterated with Salmonella enteridis into interstate commerce. Each officer also paid a $100,000 fine in addition to receiving a three-month prison sentence.
3. *See, e.g.*, FDA Warning Letter to Nutraloid Labs (Jan. 8, 2016); FDA Warning Letter to Nature's Mojo Inc. (Nov. 12, 2015); FDA Warning Letter to Dr. Dennis Black (May 4, 2015); FDA Warning Letter to Aloe Man, Inc. (Jan. 8, 2015). For a full list of FDA Warning Letters citing *Park*, *see* http://www.accessdata.fda.gov/scripts/warningletters/wlSearchResult.cfm?webSearch=true&qryStr=dotterweich.
4. *See Upjohn Co. v. United States*, 449 U.S. 383 (1981).
5. See September 9, 2015 Memorandum from Sally Quinlan Yates, *Individual Accountability for Corporate Wrongdoing*, U.S. Department of Justice, Office of Deputy Attorney General, *available at* https://www.justice.gov/dag/file/769036/download.

Maggie Craig is an associate in DLA Piper's Boston, Massachusetts office. Maggie's practice focuses on regulatory compliance and litigation matters with a specific emphasis on food and beverage, nutrition, and dietary supplements, consumer products, food and consumer product recalls, corporate compliance, and consumer fraud class actions.

Stefanie Fogel is a partner in DLA Piper's Boston, Massachusetts office and Co-Chair of DLA Piper's Food & Beverage sector. Stefanie's practice focuses on multinational food and consumer product regulation and compliance, food and consumer product recall response, corporate compliance, and commercial, class action and multi-plaintiff litigation.

Mixing Up the Puzzle Pieces:
Five Questions to Ask Yourself About the New Fiduciary Rule

By Scott Matheson

My family and I traveled to our favorite local lake this past Memorial Day weekend. Unfortunately, my wife, three kids, and I spent much of Sunday indoors due to rainy weather. We spent part of the day putting together jigsaw puzzles. As focused on the fiduciary rule as I had been, it struck me, as we were putting together and taking apart (and sometimes putting back together) these puzzles, that this is analogous to what plan sponsors will be doing in the coming months as they respond to the recently released conflict of interest rule—also known as the fiduciary rule—under the Employee Retirement Income Security Act of 1974 ("ERISA").[1]

It seems like a lifetime ago since the Department of Labor ("DOL") released its first proposed rule aimed at updating who is a fiduciary under Section 3(21)(a) of ERISA. And for purposes of where the final rule, released April 6, 2016, ended up, the first proposal might as well have happened a lifetime ago.

The initial proposal, released in 2010, was eventually recalled by the DOL when it met resistance from the financial services industry and politicians. Interestingly, that first proposal, which was originally positioned as a tool to improve the DOL's success in employee stock ownership plan ("ESOP") valuation litigation, was nowhere near as impactful as the 2016 final rule will likely be. Ironically, ESOPs are not even included in the final rule, but individual retirement accounts ("IRAs"), qualified retirement plans, health savings accounts, Coverdell education savings accounts, and medical savings accounts are. This redefinition of who is an ERISA fiduciary is the farthest-reaching piece of retirement regulation promulgated since ERISA's passage more than 40 years ago. The new fiduciary rule will result in more parties labeled as fiduciaries, more actions qualifying as fiduciary activities, and more investors benefiting from ERISA's statutory protections.

The fiduciary rule is less than three months old, and we still have many questions. We expect the DOL will provide guidance that clarifies many open issues in the coming months, but that will take time. Although we do not know how all the details will shake out in the end, we do want to share what we know at this point. To be clear, most of the effects of this rule will be felt by financial institutions working in various capacities with retirement investors.[2] While the rule does not specifically change plan sponsors' fiduciary duties and responsibilities, it does influence how they fulfill these duties, most notably how they hire and monitor service providers.

Moving to the Fiduciary Standard

One of the rule's key aspects that many of the brokers and other agents serving IRAs will struggle with is the *fiduciary standard* of care itself—the requirement to put client interests above one's own and to only make recommendations that are in the client's best interest. Brokers, for example, have been operating under the *suitability standard* for IRA recommendations. The suitability standard requires that the broker have a reasonable basis to conclude a recommendation is appropriate for a client when it is made. A broker's recommendation to buy an investment, call it "Investment A," can be considered suitable over another investment ("Investment B"), even if Investment A generates higher compensation for the broker than Investment B. By contrast, an ERISA fiduciary may have a difficult time recommending Investment A over B, given the inherent conflict that exists, without showing that Investment A would be in the best interest of the investor.

Since the DOL did not wish to pick winning business models among those serving IRAs—namely brokers that may have variable compensation and fee-based registered investment advisors—it needed a way for parties with conflicted compensation models to give advice to IRA accountholders. The DOL's solution came in the form of a prohibited transaction exemption called the *Best Interest Contract Exemption*, more commonly known as the "BIC Exemption"—or just the "BIC." The BIC uses a combination of a contract, disclosures, representations, warranties, and rigorous compliance with best interest contract standards, to allow a party with conflicted compensation to provide advice to IRA account holders and ERISA plan fiduciaries responsible for less than $50 million in assets.

Back to the Puzzle Pieces

Most plan sponsors have implemented fiduciary processes and governance programs to meet their fiduciary requirements. This completed puzzle, if you will, is going to change as a result of the DOL's rule. Plan sponsors will have to stop, take their puzzles apart, shake the pieces up, and put them back together in a new configuration. They must adapt to altered roles and perhaps more fiduciaries working with their plans and participants.

This article includes a five-question framework to help plan sponsors reconstruct your puzzle. While further details will emerge, this framework will help you respond to the changing landscape:

Do we know all the third parties acting in a fiduciary capacity to our plan or plan participants under the new rules, and what conflicts do these third parties have?

Given the broadened ERISA fiduciary definition under the new rules, it is likely that some of the roles played by the third parties involved with your plan or plan participants will change from non-fiduciary to fiduciary. Your responsibilities as a plan fiduciary include the duty to monitor and the duty to avoid prohibited transactions. The starting point for both of these duties is to first know who works with your plan and participants and the capacity in which they work, including:

- *Advice to plan sponsors*—Gone are the days of working as an advisor to qualified retirement plans without acting in a fiduciary capacity. Because it defines more acts as fiduciary in nature, the new rule will make it harder for advisors and consultants providing investment advice or suggestions to avoid fiduciary status.
- *Advice to plan participants*—Similarly, to the extent an advisor or recordkeeper is interacting with your participants, you will want to understand if he or she is doing so in a fiduciary capacity. While the rule reiterates that it is possible to provide education and guidance to plan participants without it becoming fiduciary advice, it also makes it easier to trip into the advice category with certain topics, namely those related to distributions from plans, including rollovers. As a result, many of the guidance or education services provided by your plan's recordkeeper today may need to be delivered under a best interest approach and through an arrangement in which your provider is acting as an ERISA fiduciary.
- *Understanding conflicts*—The BIC Exemption allows fiduciaries—including plan advisors, consultants, and recordkeepers—to provide services despite their conflicts of interest. In this new environment where conflicted fiduciaries can exist, you will want to understand if a conflict exists, and if so, what that conflict is. You will then need to determine if you are comfortable with the particular conflict. Conflicts under the new rule can range from firm-level third-party payments—which may include such things as conference sponsorships or fees paid by asset managers in exchange for shelf space—to conflicts at the individual client level, including variable compensation by investments in the plan.

What are these third parties' compliance policies and procedures that will ensure these conflicts do not influence the advice they are providing to our plan or participants?

Beyond simple awareness of the source of the conflict, you will want to understand your advisor's or recordkeeper's policies and procedures that are intended to prevent these conflicts from affecting the advice you or your participants receive. You may want to consider:

- *Prohibited transactions*—Given your fiduciary duty to avoid plan-related prohibited transactions, if possible, you will want to secure assurances that your fiduciary service providers adhere strictly to their policies. You may also want to pursue amendments to existing contracts that add attestations and assurances of compliance.
- *Contract Amendments*—Once you have reevaluated your third-party relationships, you will need to amend your contracts with service providers for whom you have discovered that previously non-fiduciary actions may now be fiduciary. In those amendments, you should ask for written affirmation of fiduciary status as well as descriptions of their relevant policies and any conflicts of interest. Recordkeeper contracts will most likely need to be amended; it is expected that most will opt to act as a fiduciary to your participants for activities related to participant distributions from your plan.

What about providing investment advice (as now defined) for our participants?

Activities that were previously considered guidance have been redefined as advice under the new rule, and service providers who were previously not fiduciaries will become fiduciaries under this new regime. Many of these service providers are able to accept this fiduciary responsibility in spite of their inherent compensation-related conflicts. The BIC Exemption provides a path for these conflicted parties to act as fiduciaries by complying with the requirements laid out in the exemption. As a plan fiduciary, you will need to decide how comfortable you are with your participants receiving advice delivered under an exemption that allows for conflicts.

What about terminated participants?

The new rules extend ERISA investment fiduciary coverage to IRAs. As a plan fiduciary, you may wonder why this change impacts you or how this could affect your fiduciary duties. In short, transactions such as rollovers and other plan distributions will more often than not trigger fiduciary status for the parties involved. Given the more stringent requirements and increased risks imposed on ERISA fiduciaries, we expect there to be fewer third parties seeking rollovers. This change may mean that many plan participants—particularly those with smaller balances—have fewer options available to them when they separate service. Ultimately, this could result in many participants wishing to stay in your retirement plan after they separate service. You will want to

evaluate your philosophy surrounding how open you are to keeping these terminated participants in your plans.

Should plan designs be updated to align with the philosophy regarding terminated participants?

Plan sponsors who decide to accommodate terminated participants staying in their plans may wish to update their plan designs to allow roll-ins and consolidation of other qualified assets eligible to roll into their plans. Plan sponsors will want to evaluate their comfort with creating methods for participants to keep their account balances in the plan and providing them with the flexibility to withdraw money when needed

Less than six months after the final rule's issuance, these are still early days for an industry piecing together the impacts and adapting to these updated rules. While not all the puzzle pieces needed to complete the picture exist yet, further details are expected to emerge as April 2017 nears. Nonetheless, irrespective of how interpretations may change as the effective date nears, we are confident the series of questions we pose here will be relevant for plan sponsors as they consider the impacts of the new rule on their plans and participants.

Endnotes

1. 29 U.S.C. §§ 1001, *et seq.*
2. *Retirement investors* here include not only ERISA-qualified retirement plans, but also participants and beneficiaries to those plans, as well as individual retirement account (IRA) holders and their beneficiaries.

Scott Matheson joined CAPTRUST in 2007 and is currently a senior director and Defined Contribution Practice Leader, responsible for leading the development of defined contribution services to address the needs of CAPTRUST's clients. Prior to joining the firm, Scott served as an institutional sales person on a fixed income trading desk for Citigroup's Global Investment Bank in New York, NY. Scott has worked in the industry since 1999.

Developing a Healthy Appetite for Risk in Your Career

By Deborah Epstein Henry

Introduction

It was 1993. I was a newlywed and in my third year of law school. One weekend, my husband, Gordon, and I were at our favorite New York City diner and I began seeing opaque spots, like the ones you see when a flash photograph is taken of you. It was a strange sensation and I began feeling increasingly out of sorts. We rushed back to our apartment. The spots intensified as did a feeling that my mind was racing and I could not keep track of my thoughts. Then came a *grand mal* seizure. Next thing I remember is hearing Gordon on the phone as I regained consciousness, asking my parents to meet us at the hospital.

The emergency room diagnosis was a brain tumor. But a couple of days later, we found a specialist and what he discovered was quite heartening. He said that while I had a lesion in the back of my brain, he thought it came from a rare parasite, Cysticercosis, typically found in Latin American countries. The parasite usually multiplies so that when a brain scan is done post-seizure, the brain looks like Swiss cheese. In my case, there was only one lesion. To be sure it was a parasite and not a brain tumor, he would need to operate. Five days after the seizure, I underwent brain surgery. My parents recount the magic moment post-surgery of seeing the brain surgeon jog down the hospital hall yelling, "It was a parasite!" My vision was blurry for about a month after the surgery and I took steroids and anti-seizure medication for a few months more, but I was told I would soon be as good as new.

Brain surgery as a 26-year-old, newly married law student changed my life. The emotional swing from breakfast at my favorite diner, to a seizure, to thinking I was going to die, to a bright prognosis five days later was overwhelming. But the seizure, the conflicting diagnoses, the brain surgery, and the experience of having family and friends rally around me not only made me grateful but also, it gave me an unusual perspective. It gave me confidence not to defer important choices and not to be as concerned with keeping all my options open. I felt inspired to start taking smart risks in my life by figuring out what was important to me and what would give me greater satisfaction. Had I not had this experience, I doubt I would have had my first child at age 27. I probably would have waited the two years to see if I could secure the partnership title at the law firm where I worked before electing to leave to start my consulting firm. Or maybe I would not have had the guts to start a consulting firm and leave law practice in the first place. And, then I doubt I would have had the wherewithal to co-found a second company five years ago. But when faced with the prospect that life may end abruptly, time and choices never looked quite the same.

The likelihood of an American getting Cysticercosis is about one in 319,000. Pretty low odds. That is the reason why I tell you this story. I do not want you to wait for an experience like this to begin living your life. So, I ask you: 1. What is standing in your way of taking smart and calculated risks in your career?; 2. What are you risking by not taking these risks?; and 3. How do you gain the confidence to start taking the risks that will propel your career and your life?

Risk Parameters

Risk is often defined as a situation involving exposure to danger. However, risk means different things to different people. One person's risk is often another person's opportunity. People also seem to have different risk thresholds. Some gain more confidence to take risks as they age while others become more risk averse.

Some believe that risk taking is a financial luxury while others see risk as a necessity. When I ran an event focused on risk in New York with Chieh Huang, a corporate lawyer turned successful entrepreneur, he disagreed with the notion that risk-taking is a financial luxury. As the primary breadwinner in his family, he felt he still had the freedom and flexibility to take risks and was confident that if the risk he took did not work out, his skills would enable him to find something else to support his household. He also expressed, with humility, that he was not too proud to "flip burgers" and do whatever was necessary to support his family.

Many believe that gender plays a role in risk aversion. When women appear to be more risk averse, I believe it is for two related reasons. One is how they are raised. As Katty Kay and Claire Shipman report in their book, *The Confidence Code*,[1] girls are often raised to be "good girls" and follow the rules. They are then rewarded for their compliant behavior. I also see women less inclined to take risks because they have not historically been rewarded for going outside of the conventional path. In turn, women are often not expected to take risks and when they do, there is less societal and workplace support for their risk taking.

Whether or not you are supported for taking smart risks, risk-taking is important. *The Confidence Code* research and countless other studies increasingly support the value of risk taking and failure in order to gain greater confidence and success. Indeed, inaction (not taking a risk) can often be a bigger risk than taking the risk a person is contemplating. There are many who have regrets

about risks not taken, especially because often there is no subsequent opportunity to recover from failing to take the risk.

Some believe that the risks they are considering will enable them to have more passion in their career and gain greater happiness. And, some question whether happiness and passion are legitimate career motivators. I would argue that happiness and passion in your career are aspirations you should strive for but you need to balance these desires with finding career paths that are practical and viable. Often, it does not have to be one or the other.

Risk Reluctance

Despite the research that supports the idea that risk taking is critical to advancing a person's career forward, many people are still reluctant to take risks. Some of these individuals have taken risks that have not panned out and they are afraid to try again. For those who have gained success and status, they may become even more risk averse for fear of what they might lose. In asking hundreds of people about risk reluctance over the years, I have found that most attribute their reticence to a variety of factors including a fear of failure, rejection and competition as well as a lack of confidence or knowledge. Among these fears, the fear of failure is overwhelmingly the most common. Yet most would acknowledge that it is not healthy to build a life around fear.

Often, a triggering event like my brain surgery is a significant driver to push a person over his or her risk threshold. For others, it may be a natural course of events or transition due to a geographic move, marriage, maternity leave, graduation, retirement, etc. However, when there is no triggering event and no natural transition before you, the question becomes how do you develop the courage to take smart risks?

Courageous Risks

Over the years, I have learned valuable lessons that have helped me and others take strategic risks and, in turn, make a difference in our careers and our lives. What follows are highlights of these learnings:

- **Analyze the pros and cons of your choice**. Anticipating the possible setbacks and potential gains as well as the pros and cons of the risk you are contemplating is critical. In anticipating the setbacks, it is also helpful to think through contingency plans and potential strategies to effectively bounce back. By preparing in advance a recovery for a risk that may not ultimately be successful, you will gain the confidence to take the risk without allowing the pros and cons to paralyze you.

- **Consult with trusted advisors**. Lack of confidence and fear of exposure or embarrassment often prevent us from sharing the risk we are considering, even with our trusted advisors. But, do not keep the risk you are contemplating a secret. If you keep it to yourself, you are unlikely to benefit from those around you who may help you critically think through the opportunities and challenges as well as identify and connect you with others who may help inform your decision. These trusted advisors you consult with should include people who know you personally and professionally so that they can assess both your professional aptitude as well as your social composition. Your trusted advisors can also help you anticipate the reactions that colleagues, friends and family may have and advise you on how to respond to their reactions.

- **Identify additional information or support needed**. You may ascertain additional information needed to make an informed decision. Or, you may realize that there are others with whom you should consult to reach the right decision. You may also identify others from whom it is important to gain support to maximize the likelihood of success in your risk-taking choice.

- **Consider the impact on others**. While you may think the risk you are contemplating is only about you, more often than not it becomes clear that others will also be impacted. It may be helpful to confer with these people to get their buy-in and support as well as their feedback on whether the choice you are considering is a good one.

- **Contemplate modifying the risk**. People will often pilot the risk they are considering by pursuing it on a volunteer basis, testing it out or doing it on the side before fully committing to it. If you can pursue your risk on a trial basis, it can help give you the confidence in your decision to pursue the risk more fully. It will also inform you whether the risk you are contemplating should be modified based on the information you have gleaned.

- **Anticipate the obstructers**. Anticipate what and who may stand in the way of your risk decision and why they may do so. Assess whether there is any legitimate basis for their discouragement and if such a basis exists, work to resolve those concerns. If you do not believe there is a legitimate basis for their concerns, see if you can convert these potential obstructers into allies. If not, then anticipate how you will best pursue your risk-taking without their support and whether you will need to take any additional steps to contain the damage from any possible attempts to thwart your efforts.

- **Make the ask**. Many are fearful of asking for help or asking for what they need. We are often good at nurturing relationships but we fall short of enlisting others or making that final request that will

make the difference. You can often overcome this hurdle by making small and specific asks or seeing if you can make your ask more of a give. If you are generous and helpful, the person receiving the request will likely be more receptive to wanting to help you.

- **Consider ways to build up your risk tolerance**. Determine if there are smaller risks that you can take or less intimidating venues to take these risks to help build up your confidence. More frequent risk taking may also help you develop a greater tolerance for disappointment. Assess whether the risk you are considering can be staged and paced to make the overall risk less intimidating and less damaging if it is not successful. Additionally, contemplate the worst case scenario of taking the risk you are considering and how you would overcome it. If the worst case scenario is something you can tolerate without much hardship, it may help you build up your risk tolerance.
- **Seek out risk-taker inspiration**. Ask others you know who have successfully taken risks about their thought process and how they went about taking the steps that they did to take a risk, as well as the impact of their risk-taking. Seek out books and articles, attend lectures and listen to talks and identify other resources that feature people whose risk-taking approaches and paths are inspirational to you. You may even undertake physical challenges yourself as a means to give you the confidence to take professional risks. For example, some report that after successfully completing a marathon or engaging in challenging ropes courses, white water rafting or other physical adventures, they are more confident in taking risks in their professional lives.
- **Evaluate prior risk-taking successes and experiences**. Look at your prior risk history and assess what factors you previously considered that helped you overcome your fear of taking risks. Consider whether your prior choices made sense and were helpful and what you can do differently or better to achieve a more favorable result. Analyze what has held you back the most in taking risks in the past and what your greatest fears are in taking the current risk you are considering.
- **Be thoughtful about how you frame prior risks**. Rather than see prior unsuccessful attempts as failures, see if you can learn from them and incorporate those lessons into your next effort. When I ran an event on risk with well-known restaurateur Alison Barshak, Founder of Absolutely Lobster® and former chef of Striped Bass and other esteemed restaurants, she relayed that she did not see the bankruptcies that her companies went through during her career as failures. While she underscored that filing bankruptcy is not a decision to be taken lightly, she also knew that the filings were the best options at the time and they led her to make better choices and achieve greater successes in her future ventures.
- **Assess the best timing**. Your readiness to take a risk and the timing you choose may have a significant impact on your success. If there is no triggering event or natural transition that will motivate you to take a risk you have been contemplating, consider setting goals or targets that will institute a timeline for getting there.
- **Consider the risk of inaction**. Often what propels someone to take a risk is not as much the confidence to do so, but instead, the fear of not doing so. Indeed, the risk of inaction is, at times, greater than the risk of failure. So, it is important to evaluate not only the impact of the choice you are considering but also the impact if you do not make that choice.
- **Recognize it is normal to feel uncomfortable**. Taking risk involves stretching yourself, which is uncomfortable for many of us. By recognizing that pushing yourself out of your comfort zone is often an awkward and scary feeling, it may help you adjust to it more readily. The corollary to this discomfort is a fear that you are being reckless and have gone too far. However, in taking the steps outlined here, you can assure yourself that your decision has not been rash or thoughtless. Without feeling uncomfortable, you will not be able to dream bigger and learn more. Falling short of those efforts and aspirations will prevent you from achieving and pursuing all that is available to you.
- **Focus on resiliency and perseverance, not perfection**. Pursuing a risk that may have some challenges or results in you going in another direction does not mean that you have failed. Focusing on resiliency and perseverance and how to be agile and responsive to challenges and unanticipated scenarios is a healthy framework. Perfection is not a realistic or productive pursuit.
- **Go with your gut**. After all of your thoughtful analysis and consultation, you will need to make a decision. Big decisions are seldom neat and crystal clear. Do not get caught up in the lack of precision in your choice. Ultimately, you will have to go with your gut and a leap of faith that you will be able to confront the unanticipated challenges as you see them and embrace the obstacles as they come.

Conclusion

For nearly 20 years, I have seen that most people who are risk averse are fearful of losing what they have and being unable to get back to where they were if their risk-

taking is unsuccessful. However, people often discover that there is not as much finality in the risk they are considering as they initially thought. So the door that you thought you were closing is often still open, at least partially, and the surprise is that once you take the risk you are considering, you realize that the biggest thing preventing you from opening that door again is yourself.

I have found that a significant impetus for successful risk-takers is their appreciation of unanticipated and unintended benefits. That is, that one risk begets another opportunity. Successful risk takers understand that once they take a smart and calculated risk and it delivers a positive result, the outcome is often not one they expected and it subsequently led to more opportunities than they could have dreamed. After thorough analysis, weighing of options, consultation with others and additional contemplation, I hope you will ultimately be buoyed by the unknown rewards in your exciting journey ahead.

Endnote

1. Katty Kay & Claire Shipman, *The Confidence Code: The Science and Art of Self-Assurance—What Women Should Know* (2014).

Deborah Epstein Henry is an internationally recognized expert, consultant and public speaker on the legal workplace, women and work/life balance. She is a two-time ABA best-selling author of *Law & Reorder* **and co-author of** *Finding Bliss***. A former practicing litigator, Debbie is President of Flex-Time Lawyers, providing consulting, training and speaking services to law firms, companies and non-profits in the U.S., Canada and Europe. Her firm is well known for running with** *Working Mother*, **the Best Law Firms for Women initiative—a national survey to select the top 50 law firms for women and report on industry trends.**

Through her press attention, public speaking and consulting, she grew a network of over 10,000 lawyers and through this network, she became a Co-Founder and Managing Director of *Bliss Lawyers*, a firm that employs high caliber lawyers to work on in-house and law firm temporary engagements.

She received her B.A. in Psychology from Yale and her J.D. *cum laude* **from Brooklyn Law School. Debbie served as a federal law clerk to the Honorable Jacob Mishler in the United States District Court for the Eastern District of New York. A native New Yorker, she lives in the Philadelphia suburbs with her husband and three sons.**

Pay It Forward: Tips for Success at Multi-Generational Networking for In-House Lawyers

By Phyllis Weiss Haserot

I. Introduction

We all know we have to do it. Why do so many lawyers hate networking?

Often avoided and even under-valued, networking is a challenge to many people: those who are introverted or shy; extroverted and who dominate conversations; uninterested in small talk; feel pressure to sell themselves, or do not see it as part of their "real work." Interacting at networking events or in their own organization with members of younger generations may challenge even those long-time networking in-house lawyers who appreciate the value and enjoy it. They may feel they have little in common to talk about, are stymied by differing lingo, experiences and skills and may feel younger or older people are not interested in them.

"In-house lawyers have much to gain by maximizing their networking effectiveness with all generations. They learn skills and obtain information to enhance their career game and ongoing relevance, and be a valuable bridge among the generations at work, benefiting everyone."

As a consultant on multi-generational workplace issues and business development, a few years ago I was approached for some advice: "How can I break the ice when networking with a much younger group? I have recently been attending events with professionals much younger than myself and would love some tips about feeling comfortable when there is a very obvious age difference —A Boomer." Periodically the question comes up from both older and younger people, including from several people at an inter-generational "world café" event I recently participated in who said they would rather stick with their own age group, but admitted that attitude had its limitations.

In-house lawyers have much to gain by maximizing their networking effectiveness with all generations. They learn skills and obtain information to enhance their career game and ongoing relevance, and be a valuable bridge among the generations at work, benefiting everyone.

II. Defining Networking More Broadly

Networking is not just walking into a room of strangers or meeting someone for the first time. Equally or more important is the networking used to keep in touch and current with people you know at work and professional or social organizations to enhance your career, seek promotions, or seek a leadership position. Not only is this crucial for younger professionals, it is very important for Boomer in-house lawyers, who have accumulated networks over time and need to strengthen them by adding younger people to their circles.

Fundamentally, networking and dealing with people of different generations from our own, whether for generating business, job searching or enhancing success at a current employer, is similar to the recipe for any kind of successful networking with a few twists. With some tips and an open attitude, in-house lawyers can maximize their networking effectiveness with all generations.

Networking is best when it is a two-way street. Helping younger or older people through networking can pay dividends. When pursued intentionally and with reciprocity, important connections can be nurtured with people who are colleagues at work or known from other sources. Help and support can come in many forms.

Attitude is key. Networking should be approached with curiosity and a sincere interest in the other person. One of my business development clients, a successful lawyer, told me he was bored when having conversations with people in his local community group who were not already established friends. You can guess the outcome from a bored attitude, even though he was a community leader. I gave him some questions to lead with that would elicit more interesting conversation if asked enthusiastically, and he eventually got more comfortable. If you really want to learn about others' interests, it will show. So will boredom and discomfort, which will end any chance for a useful relationship.

III. Strategies and Tips

Develop comfort by taking the focus off you.

A. If you are a Baby Boomer:

Start by recognizing that what Gen Xers and Gen Y/Millennials want in a work context is to feel important; to be heard; to have their ideas sought out; to feel you enjoyed the conversation; and to sense your authenticity—essentially to feel respected and valued.

Questions to younger colleagues or acquaintances such as:

- How do you most like to spend your time?
- What is the most important lesson or insight you have gotten from your work?

- What do you wish you knew at the very start of your career?
- How do you think work should be restructured to make it more productive and enjoyable?
- How do you think you can be most helpful to teammates? What do you see as your most valuable contributions?

Showing an interest can result in a solid basis for a relationship that makes the other person feel respected and valued. Their responses will give you clues about how to follow up and offer help. Then you become a person of interest to them too.

"One of the keys is to get outside yourself and feel excited by what you can learn about, and from, each person you meet or work with."

B. If you are a Generation Xer, with both older and younger generations:

- Take time to establish rapport. Show you are interested in the "why" behind their views, not just "cutting to the chase" for efficiency.
- Ask questions that show interest in their personal or organizational mission or purpose.
- Explore what they like best about their work.
- Discuss ways you can both keep learning about each other, and share advice when asked.

C. Tips for Gen Y/Millennials:

- Show interest in Boomers' accomplishments.
- Do not make Boomers feel old by your language or comparing them to your parents.
- Ask what they wish they had learned earlier in their careers. And, show appreciation for their advice.
- If you would like someone you are talking with to be a mentor, ask how you can help them or suggest in a non-arrogant manner how you can help them.
- Ask Gen Xers about their career or current project goals.
- Show interest in GenXers' children and families and how they handle work-life flexibility.

Specific networking steps for in-house lawyers that really register with younger generations that you are a valuable source and connector relevant to furthering their careers include:

- When you are networking, if there are people you know in the room, introduce young people to them and make those people feel comfortable by giving a snippet about them to lay a foundation for common ground or a conversation starter.
- Offer to introduce your new young acquaintance to people you know beyond the event. They are hungry to build their networks and learn from experienced people, and your offer shows you respect them and the value they might bring for mutual benefit. Younger people will flock to you if you can be a connector for them and make introductions to resources and possible mentors.
- Do not worry about having to be an expert in music, sports or other interests they have, if you do not really care to be. That is inauthentic and they will pick up on it. Remove preconceived notions that you will have nothing in common.
- If you are a Boomer, do not talk too much about your children of their age. Convey how they can be useful to you.
- There is more than "technology savvy" that Boomers can learn from Generations X, Y and Z. They have useful knowledge from differing perspectives on new markets, new product ideas, contacts in new companies and industries. And they can even give colleagues who have Gen Z children a more informed sense than what we read about the college experience today.

IV. Conclusion

One of the keys is to get outside yourself and feel excited by what you can learn about, and from, each person you meet or work with. It is a state of mind that you can adopt, an attitude of making new friends (even if that is not your goal). Your younger colleagues and new acquaintances probably feel equally or more uncomfortable networking cross-generationally, and you can reach out to build a mutually valuable bridge that transfers to fruitful working relationships.

Phyllis Weiss Haserot is president of Practice Development Counsel, a trailblazing marketing/business development and organizational effectiveness consulting and coaching firm working with lawyers. She helps them solve intergenerational challenges to boost client attraction and retention, productivity, succession planning and knowledge transfer.

Phyllis is the author of *The Rainmaking Machine: Marketing Planning, Strategy and Management for Law Firms* (Thomson Reuters—latest edition 2016). Her email is pwhaserot@pdcounsel.com.

The Glass Ceiling Is Just a Reflection

By Shari Davidson

I. Introduction

Law is a male-dominated profession. There are more doors open to women today, but woman have not achieved economic parity with men. There has been tremendous progress, but the earning power of women is still considerably lower than that of men. Women are increasingly represented in many top leadership roles here and around the world, as women advance professionally, they have begun to redefine themselves.

II. Advice from Successful Women Attorneys

What qualities do women possess who break through the glass ceiling? I asked several successful women attorneys: "How they got to where they are today and what advice they have for women attorneys who are just starting out?"

Leslie Berkoff, Partner, Moritt Hock & Hamroff LLP:

> My path was somewhat unconventional; after clerking for a federal judge the job market was not doing well. I decided to take another clerkship in the Bankruptcy Courts. I fell in love with bankruptcy and when I "hit" the job market I decided to avoid the big firm game and pick a smaller, more collegial place where I saw great growth opportunity and the ability to balance work/life.
>
> Women today don't have to follow the lock-step path of your colleagues; don't be afraid to explore other opportunities.

Kathleen Turland, Chief Compliance Officer, Current, powered by GE:

> Work closely with people who you admire and respect. Develop good relationships with your colleagues, understand the roles they play, the demands and pressures of the firm, and what made them successful. Be smart, volunteer for assignments others may not want. It worked well for me, it might work for you too.
>
> Be open to advice from many, look at what they are doing and think whether that works for you; be willing to move, accept change as it comes and go with it.

Elizabeth J. Shampnoi, Esq. Director, Dispute Advisory & Forensic Services, Stout Risius Ross, Inc.:

> I got to where I am today by building a strong network of colleagues, mentors and sponsors while gaining experience and developing skills to excel in my substantive area of practice—dispute resolution.
>
> I would advise new attorneys to network, build relationships, follow up and do what you say you are going to do. To be successful in the long term, attorneys must build a brand and it is never too early to start.

Phyllis Weiss Haserot, President, Practice Development Counsel and author of *The Rainmaking Machine: Marketing Planning, Strategy and Management for Law Firms:*

> Some of the things women think are *their* issues also are issues for many men. So they need to address them together. The biggest obstacles vary from firm to firm or company depending on the cultures and personalities. So many things have to change for all genders in firm cultures and policies that motivate behaviors. Often lip service exists for good and fair things that is counter to what actually exists in the culture and unwritten rules.
>
> Women need to be more aware of the intersection of gender and generational attitudes. Different generational attitudes inform and influence attitudes and behaviors affecting *all* aspects of diversity. If the same messages are going out to everyone, be aware that they are being received and interpreted in different ways. I believe this is one reason more progress has not been made. I advocate cross-generational conversation and conversations with men.

Marie Lefton, Esq., Principal, Lefton Consulting:

> In terms of strategies for getting around the glass ceiling, there is nothing wrong with taking an in-house position with shorter hours and lower pay. Not everyone wants to be an equity partner.
>
> Women partners with books of business generally build them organically, whereas most men inherit their books from other

men. This observation comes both from my consulting practice as well as from research in this field. In light of this, what advice would I offer to younger women seeking to build a book of business? Don't allow others (men) to make your career decisions for you, e.g., if your client has a trial in another state, … don't allow the lead partner to decide that you should stay at home to take care of your family. If you are second-chair on the case and want to be there at trial, speak up in a firm-but-nice way.

Tina B. Solis, Partner, Nixon Peabody LLP:

Many attorneys, both men and women, have struggled and continue to struggle with work/life balance. Fortunately, many law firms have recognized this issue and have put mechanisms in place that allow their attorneys to help achieve that balance such as a reduced hour schedule, flexible hours or working remotely. This has allowed law firms to retain the best talent in the long run.

In order to break through the glass ceiling, you need to be proactive. It's your career, so you need to advance it. In addition to developing a solid book of business, you need to volunteer for administrative projects to demonstrate your leadership skills and a commitment to the firm.

J. Joan Hon, Partner, FisherBroyles LLP, LAW FIRM 2.0®:

I have not yet faced the usual "women's issues" of motherhood, marriage, and running a traditional household, but I did go through caring for my parent and handling a plethora of issues after she died very early on in my career. I took a break after my third year for these reasons (and not some of the more traditional), so I would say I do have experience with re-entering the workforce and juggling work-life balance even without being a mother.

Women who are fed up will turn to an alternative firm (like mine and succeed incredibility), set up their own practices or look for non-traditional legal roles. So much can happen with persistence and positivity.

Elizabeth D. Schrero, Partner, Seyfarth Shaw LLP:

Women have come a long way but still have a long way to go to achieve parity. I see movement towards the goal of parity tied to increased business development of women which in turn is tied to women's initiatives and sponsorship and, critically, rising numbers of women in positions of authority in business, who will send work to women attorneys.

Some younger women and men are choosing not to reach to the glass ceiling—they want flexible work arrangements and some just opt out of the law firm partnership track.

Marci Goldstein Kokalas, Partner, Lazare Potter & Giacovas LLP:

I got to my current position by focus and hard work—and maintaining relationships. If you are just starting out, take time to think about what you want to do—both in work and your personal life. Be upfront about your goals with your superiors.

Seek out work—it will not just come to you. And don't lose sight of what you have outside of work—I think balancing work and personal life is very difficult and ever-changing, but very important for your ultimate happiness.

III. Conclusion

Is it possible to think you can have it all? Absolutely. No one says it is going to be easy, but yes these women are at the top of their game. It comes down to what is important for you, for many it is about balance between their personal lives and their careers. That is really a personal decision, and thankfully there are more options today than ever before. There truly are enormous opportunities for women in law. With talent and hard work, you can achieve whatever you want.

Shari Davidson is president of On Balance Search Consultants. Shari advises law firms on how to take a firm to the next level and helps rising talent make the transition to the right law firm. Shari has facilitated programs for Fortune 100 companies, non-profit organizations, adult ed, colleges and universities, and publicly held programs. She has authored and presented corporate training programs, including *Where Does All the Time Go When You're Having Fun?*, *Take the Fear Out of Goal Setting*, *The Hidden Job Market* and *Interviewing & Job Interview Preparation*. Her email is shari@onbalancesearch.com.

Supplier Diversity and Sustainability: Inclusion and Engagement—Game Changers/Bridge Builders

By I. Javette Hines

Introduction

This article focuses on Supplier Diversity and Sustainability as areas of interest and curiosity. Many articles have been written about both topics, which have been subject to compliance considerations and mandatory requirements over the past 40 years when trying to assess business value. However, the more practical approach is to recognize both not simply as another area of evaluation and compliance, but instead as an opportunity to improve business value and ensure sustainable business practices.

Supplier Diversity—The Program

The practice of inclusion, utilization and advocacy of diverse and small business suppliers in servicing supply chain requirements is referred to as supplier diversity.[1] As a practice, it is focused on a process that is rooted in procurement practices. Suppliers must meet general requirements including size, scale, and scope, as well as meet the needs of business for the type of supplier. In order to be considered diverse, a firm must also typically show that it is owned, managed, operated and controlled as "diverse" per standard definitions.[2] Supplier Diversity is a business imperative that has been integrated into the fabric of entrepreneurship for many decades via the concept of developing "small businesses."[3]

In the 1970s, President Richard Nixon's Executive Order 11625 recommended additional actions be taken to suggest programs and goals for the development of minority businesses.[4] The term "supplier diversity" was coined sometime after this period. It gained traction in the years to follow as inclusive procurement practices evolved and expanded to include business owners beyond the minority business community and consideration of majority ownership, management, and control of the business as a deciding factor.[5]

The Benefits

Suppliers interested in doing business with larger corporations and agencies should be cognizant of their priorities. While there is no guarantee of a contract or long-term business relationship, the creation of a sustainable business is at the crux of the value and benefit of supplier diversity programs.

Supplier diversity programs create access for diverse businesses and provide education and training to sustain them. Programs have evolved over the years with the founding of organizations that serve to support diverse businesses. These include membership driven organizations that promote the sharing of best practices, so that diverse firms get a better sense of what growth looks like, how success is measured, and real insights into what is required in the short and long term to sustain business.[6] Membership and direct engagement with diverse firms, agencies, academic institutions and corporations contribute to viable businesses being considered and included in the supplier selection process, as well as their ability to compete for opportunities.

Ultimately, working with a wide range of diverse and small businesses creates business value and contributes to a stronger economy.

Sustainability

Firms that also incorporate sustainability into their business model are more likely to be innovative and, therefore, sustainable over time. Sustainability for some denotes a focus on the environment. For a growing number of firms, however, sustainability extends to suppliers and includes: 1) human rights and labor, 2) the environment, and 3) management of those efforts.[7] Over the past several years, sustainability has risen as an important consideration. Greater emphasis will be placed on all suppliers to adhere to and comply with the sustainability expectations of their current and potential clients.

Many businesses have evolved and grown beyond the traditional "small business" designation. Many have even moved on and become multi-million dollar—and in a few cases, billion dollar—businesses. When this occurs, the intent of supplier diversity as an integrated strategic approach is met. But the criteria with which we measure and evaluate success also continue to evolve.

Sustainability has in its evolution increased in importance, driving a need for awareness as an equal partner in strategic thinking relative to the supplier selection process. Because of increased interest by customers, as well as regulatory agencies in supplier risk management, insight into the overall general health of the supply chains of suppliers has become very important.[8] Corporations, for example, are being asked with greater frequency to demonstrate and report on sustainability, increasing the need for all suppliers to speak to sustainability within their standard business practices.

Engagement: What Needs to Happen?

Awareness: Guidelines and policies that educate firms on diversity and sustainability as areas which drive value and support economic growth are needed to promote awareness. The cost of not considering diversity and sustainability when reviewing business opportunities and drivers can be a bigger risk than failure to consider either as part of standard business practice.

Commitment: The integration of Sustainability and Supplier Diversity into general business operations beyond the supply chain will result in awareness of both as integral to business. Education and training should be developed and provide guidance on Supplier Diversity and Sustainability practices within firms. This should be required reading and engagement.

Strategy: Both Supplier Diversity and Sustainability present an opportunity to cross collaborate between legal, procurement, and business partners. The time is ripe to engage in a smarter and more logical approach to shared processes and values as businesses shift towards collaborative thinking.

Conclusion:

Supplier Diversity and Sustainability are areas in which the business case is revisited on a consistent basis. In addition, Supplier Diversity and Sustainability have evolved into matters implicit in risk considerations, governance, policies, practice and even culture.

The business case is straightforward: the goal of supplier diversity is to ensure that all suppliers have visibility and access to opportunities where traditionally consideration might be limited. The process for selection is the same; the business requirements for engagement do not differ. A diverse supplier base simply mirrors an equally diverse community, employee, and customer base and demonstrates smart business thinking.

In the world of sustainability, all suppliers must understand the impact of their sustainability efforts and share a commitment to protect the environment, respect human rights, and have an appreciation of a diverse citizenship.

Focus, commitment, and a willingness to shift cultures and thoughts can bring about collaborative success.

The views and opinions contained in this article are those of the author and do not necessarily reflect those of Citigroup, Inc.

Endnotes

1. Citi Supply Chain Development, Inclusion and Sustainability Program, Diverse Supplier Definition.
2. *Ibid.*
3. Small Business Act was originally enacted as the *Small Business Act of 1953* in Title II (67 Stat. 232) of Pub.L. 83–163 (ch. 282, 67 Stat. 230, July 30, 1953).
4. The provisions of Executive Order 11625 of Oct. 13, 1971, appear at 36 FR 19967, 3 CFR, 1971-1975 Comp., p. 616, unless otherwise noted.
5. Citi Supply Chain Development, Inclusion and Sustainability Program, Diverse Supplier Definition.
6. Citi Supply Chain Development, Inclusion and Sustainability Program, Frequently Asked Questions.
7. Citi Statement of Supplier Principles.
8. Citi Corporate Sustainability Strategy.

The Supply Chain Development, Inclusion and Sustainability department resides within Enterprise Supply Chain. Javette leads Citi's efforts to ensure the consideration and inclusion of diverse firms within Citi's sourcing practices. Additionally, she is responsible for working across the firm with sourcing and business units to align supplier selection efforts with Citi's 10 year $100B Climate initiative and 5 year Sustainability Strategy.

Javette holds a Bachelor of Arts in Middle Grades Education from Clark Atlanta University, and a Juris Doctor from the Wake Forest University School of Law. She recently received her CPSD from the ISM.

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Inside Books

Commercial Litigation in New York State Courts, 4th Ed.

Edited by Robert L. Haig (Thomson Reuters, 2015)
Reviewed by Mark H. Alcott

Bob Haig has just issued the Fourth Edition of his iconic treatise, *Commercial Litigation in New York State Courts* (*Commercial Litigation Fourth*) and, as hard as it might be to believe, this one is even bigger, better and more comprehensive than the three voluminous editions that preceded it.

Like its predecessors, published periodically over the past 20 years, *Commercial Litigation Fourth* employs the unique Haig formula of analyzing both New York procedural law and substantive commercial law, and then exploring strategies designed to produce a favorable outcome by utilizing both. It is not only an outstanding scholarly work on the commercial jurisprudence of the New York courts but also an invaluable practical compendium of checklists, forms, guidelines, jury charges, pleadings, etc.—in short, everything that is needed to handle such cases from intake conference to final appeal.

The principal authors are ideally suited to this task, since they include some of New York's finest commercial litigators, in-house counsel, scholars and judges. In the latter category are the two most recent Chief Judges of the Court of Appeals—Jonathan Lippman and the late Judith Kaye. The presence of Chief Judge Kaye's contribution is particularly meaningful, since she had authored the initial chapters in each of the first two editions, and her piece in *Commercial Litigation Fourth*—written with her characteristic insight and verve—is one of the last published scholarly works of her prolific career.

Given the vast scope of prior editions, it is astounding to see that *Commercial Litigation Fourth* is two volumes greater, 2,400 pages longer and 22 chapters richer than its most recent predecessor (published five years earlier). There could be no more vivid demonstration of the dynamism of New York commercial litigation, or the centrality of New York's courts to business dispute resolution, than this extraordinary growth.

And what are the new issues that warrant such encyclopedic treatment? They include, among other things, mediation and other nonbinding ADR; preliminary and compliance conferences and orders; project finance and infrastructure; securitization and structured finance; energy; commercial leasing; international arbitration; and well over a dozen more, each of which has its own chapter.

The comprehensive scope and contemporary perspective of *Commercial Litigation Fourth* can be gleaned by examining the chapter on social media—a subject that did not exist when the first edition was published 20 years ago. For the technophobes, the chapter includes an introductory discussion of "What is social media?" followed by a description of some leading sites and a glossary of terms. If you want to know the difference between Instagram and Flickr, trust me you'll find it here. The chapter goes on to discuss the impact of social media on legal ethics, an increasingly important subject, and to pose the provocative question: "Can a commercial litigator 'friend' a judge he appears before on Facebook?" Hint: the answer, for which you'll have to read § 113:10 and its footnote 1, is different in New York than in Florida.

Commercial Litigation Fourth is particularly valuable when dealing with the Commercial Division of the N.Y. Supreme Court. That is understandable. In 1995, Mr. Haig co-chaired Chief Judge Kaye's Commercial Courts Task Force, whose efforts implemented the Commercial Division, and he currently serves as chief of the Commercial Division Advisory Council. The Commercial Division has expanded rapidly since its creation 20 years ago; it now encompasses 28 judges in 10 counties. It has significantly updated and modernized its procedures and practices, and *Commercial Litigation Fourth* is an invaluable guide to advocates who litigate in its precincts.

Those who rely on *Commercial Litigation Fourth* can take comfort in knowing that it will never become dated. Mr. Haig, his stable of dedicated authors, and his colleagues at Thomson Reuters relentlessly update the work by publishing annual pocket parts. Surely you remember pocket parts. They are the hard copy predecessors of electronic revisions, and they are alive and well in the world of *Commercial Litigation in New York State Courts*. Indeed, one of the singular achievements of *Commercial Litigation Fourth* is the way it seamlessly integrates the pocket parts that previously accompanied the earlier editions. One can assume with "a high degree of confidence," as our transactional lawyer sisters and brothers say, that the practice of issuing annual pocket parts will continue, so that *Commercial Litigation Fourth* will remain contemporary and relevant—at least until the Fifth Edition is published, a decade or two from now, as it surely will be.

Mark H. Alcott, of Paul, Weiss, Rifkind, Wharton & Garrison LLP, served as President of the New York State Bar Association and Chair of its Commercial and Federal Litigation Section.

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Compass Group USA, Inc.
3 International Drive, 2nd Floor
Rye Brook, NY 10573
steven.nachimson@compass-usa.com

Howard S. Shafer
Shafer Glazer LLP
125 Maiden Lane, Room 16AB
New York, NY 10038-4949
hshafer@shaferglazer.com

Diversity
Naomi K. Hills
17456 128th Avenue
Queens, NY 11434
nkh105@aol.com

INSIDE/Publications
Jessica D. Thaler-Parker
410 Benedict Ave.
Tarrytown, NY 10591
jthaleresq@gmail.com

Elizabeth Jean Shampnoi
Stout Risius Ross, Inc. (SRR)
120 West 45th Street, Suite 2800
New York, NY 10036
eshampnoi@srr.com

Membership
Thomas A. Reed
1172 Park Ave., Suite 15 C
New York, NY 10128
tareed1943@gmail.com

Joy D. Echer
Foot Locker, Inc.
Law Department
112 West 34th Street
New York, NY 10120
jecher@footlocker.com

Jana Springer Behe
NYSTEC
540 Broadway, 3rd Floor
Albany, NY 12207-2708
behe@nystec.com

Pro Bono
Steven R. Schoenfeld
DelBello Donnellan Weingarten Wise
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One North Lexington Avenue, 11th Fl.
White Plains, NY 10601
SRS@ddw-law.com

Technology and New Media
Fawn M. Horvath
Macy's, Inc.
11 Penn Plaza, 11th Floor
New York, NY 10001
fawn.horvath@macys.com

Natalie Sulimani, Esq.
Sulimani & Nahoum P.C.
116 West 23rd Street
Suite 500
New York, NY 10011
natalie@sulimanilawfirm.com

Inside

Co-Editors

Jessica D. Thaler-Parker
410 Benedict Ave.
Tarrytown, NY 10591
jthaleresq@gmail.com

Elizabeth Jean Shampnoi
Stout Risius Ross, Inc. (SRR)
120 West 45th Street, Suite 2800
New York, NY 10036
eshampnoi@srr.com

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Section Officers

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Jackson Heights, NY 11372
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Chairperson-Elect
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Foot Locker, Inc.
Law Department
112 West 34th Street
New York, NY 10120
jecher@footlocker.com

Vice-Chairperson
Elizabeth Jean Shampnoi
Stout Risius Ross, Inc. (SRR)
120 West 45th Street, Suite 2800
New York, NY 10036
eshampnoi@srr.com

Secretary
Naomi K. Hills
17456 128th Avenue
Queens, NY 11434
nkh105@aol.com

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Yamicha Stephenson
Deloitte
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New York, NY 10019
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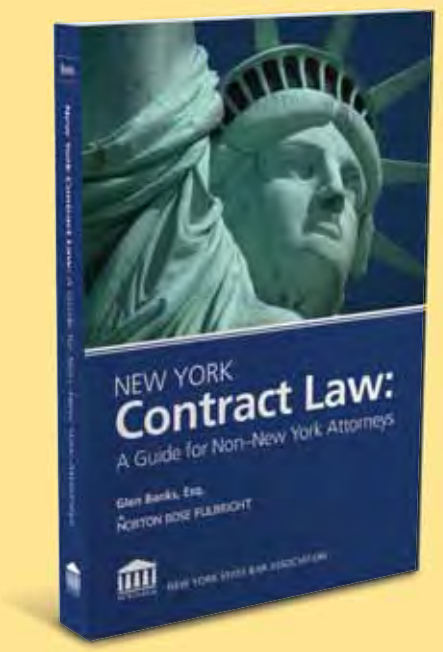

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