Knoxville Bar Association

THE CONSIGLIERE

FALL 2013 Vol. 8, No. 3

Let us know your ideas and suggestions for *THE CONSIGLIERE:*

- Call or email Marsha Wilson at 522-6522 or mwilson@knoxbar.org.
- Submit an article for consideration.
- Give us your feedback on this newsletter.
- Tell us about CLE topics or networking events you would like the Section to sponsor.

FROM THE CO-CHAIRS

In 2003, KBA Executive Director Marsha Wilson had the foresight to reconvene the Corporate Counsel Section, which had been dormant for some time. After tapping local DeRoyal in-house counsel Tracy Edmundson to lead the charge, several local attorneys met at UT's Faculty Club to toss around ideas about what the revived Section should look like. I was not of much help, of course, because I had not even started law school yet.

After that meeting, the structure, purpose, and activities of the Section were set forth and largely remain the same today. The Section seeks to provide resources and networking opportunities for corporate counsel and attorneys who work with corporate issues.

It was also decided at the time to publish a quarterly section newsletter, which Tracy artfully named *The Consigliere* and Nick McCall (TVA) built from the ground up. If you have read any issue we have published, you know it is quality through and through. These past two years, attorney Chris Field (Lowe, Yeager & Brown) has been responsible for its publication.

The Section also elected to have an annual half-day CLE geared to in-house counsel. This has always been a well-attended event because in-house attorneys have needs for special CLE topics. Plus, there is always an attempt to build in as many ethical hours as possible. Attorney Peter Brewer (Baker Donelson), a seasoned veteran of seminar production, has skillfully put together this program for the last two years.

Another great activity of the Section is the quarterly meetings that we use for social gatherings and one hour CLEs. We try to meet in the livelier places around Knoxville. These are coordinated by Membership & Social Chairperson, attorney Ned Morgan (Hodges, Doughty & Carson), who has served in this capacity for the last three years.

Marcia Kilby and I have been serving as Co-Chairs of the Section for the Section for the last three years. With two of us, we can always muster the resources to get the job done. I must say that we make a great team!

All of these positions are rewarding and a great way to network with corporate counsel and other attorneys who work in corporate affairs. It's an honor to be part of such a well-structured and active section.

We would like to hear from anybody who would like to be part of the Section and/or take on one of the roles listed above. Our final meeting at this year will be held on November 19, 2013. Please let us know on or before that date.

I hope to see you then.

David Headrick
Co-Chair of the KBA Corporate Counsel Section

UPCOMING SECTION EVENTS

In-House Counsel Toolbox Series: An Employment Law Update & Avoiding Ethical Pitfalls

When: November 19, 2013, 6:00 p.m.-7:00 p.m.
Where: Copper Cellar West, 7316 Kingston Pike

Featuring:
Jonathan Yarbrough, Constangy, Brooks & Smith, LLP - Asheville, NC

Jon Yarbrough`s practice includes providing advice and counsel to employers on compliance with federal and state employment laws, including the Family and Medical Leave Act, the Americans with Disabilities Act, and wage and hour laws. He also assists federal contractors with affirmative action planning and compliance. Jon has successfully represented employers in a wide variety of employment related lawsuits and charges brought before the Equal Employment Opportunity Commission, the National Labor Relations Board, the Office of Federal Contract Compliance Programs, the United States and North Carolina Departments of Labor, and before state and federal courts in North Carolina and Tennessee. He has also successfully defended whistleblower charges before OSHA and before Administrative Law Judges of the United States Department of Labor. In 2013, Jon has been honored in North Carolina with inclusion in North Carolina Super Lawyers and North Carolina's Legal Elite as well as nationally with inclusion in Best Lawyers.

Program Cost:
KBA Members - $ 20
Non-KBA Members - $ 30
KBA Law Student Members - $ 0
Staff of KBA Members - $ 20

You do not need to be a member of the section in order to attend the CLE program. KBA Members not wishing to receive CLE credit may attend the program at no charge (handout materials not included). A reservation is

UPCOMING SECTION EVENTS

required in advance of the program. There is a $5 additional charge for registration on the day of the program.

Approved for 1 Hour of Dual CLE Credit.
Register online at knoxbar.org.

We need your input!!!

The section is considering an extended CLE next March on "patent trolls." Please share your feedback with Marsha Wilson (mwilson@knoxbar.org) as to whether you would be interested in attending such a program.

TAX TIDBIT

IRS OFFERS EXPEDITED APPROVAL PROCESS FOR ORGANIZATIONS SEEKING TAX EXEMPT STATUS

By: Jonathan L. Martin
Woolf, McClane, Bright, Allen & Carpenter, PLLC

Under Section 501(c)(4) of the Internal Revenue Code (the "Code"), certain organizations may qualify for tax-exempt status if they are "not organized for profit but operated exclusively for the promotion of social welfare." The Code provides that the organization must be operated "exclusively" for the promotion of social welfare; however, the Regulations explain that an organization is operated exclusively for the promotion of social welfare if it is "primarily" engaged in promoting the "common good and general welfare of the people of the community." While the promotion of social welfare does not include engaging in political activities, 501(c)(4) organizations may participate in politics if such participation does not constitute the organization's primary purpose.

Following the Supreme Court's holding in Citizens United v. Federal Election Commission, the IRS began receiving a substantial number of 501(c)(4) applications. The Court's holding was significant in that it allowed corporations and labor unions to contribute directly in support of (or in opposition to) political campaigns. As a result, the 501(c)(4) organization quickly became a popular tool to engage in politics without disclosing the identity of donors. Due to its popularity, certain organizations applying for tax exemption under Section 501(c)(4) experienced long delays in the application process. In fact, many were targeted and subjected to a heightened level of scrutiny if certain terms were included in the organization's application. In response, the IRS recently introduced a more streamlined process allowing certain organizations to obtain a determination letter in an expedited manner.

TAX TIDBIT: IRS OFFERS EXPEDITED APPROVAL PROCESS FOR ORGANIZATIONS SEEKING TAX EXEMPT STATUS

To improve the process by which applications are approved, organizations whose applications have been pending for 120 days as of May 28, 2013 and whose tax-exempt purpose involves possible political campaign intervention or issue advocacy will receive a Letter 5228 allowing such organization to request expedited approval. An organization that chooses to participate will receive a favorable determination letter within two weeks of receipt of the signed letter. However, in obtaining expedited approval, the organization must certify that during the past tax year, the current tax year, and future tax years, the organization has spent, or anticipates it will spend, 60% or more of both its total time and expenditures on activities that promote social welfare with 40% or less of its total time and expenditures devoted to the participation or intervention in political campaigns.

In determining whether an organization's activities fall within the restrictions mentioned above, the IRS provides a detailed explanation as to activities included in the determination. In calculating an organization's time spent and expenditures incurred on social welfare activities, such activities do not include any expenditure incurred or time spent on the following: 1) activities that benefit select individuals or organizations rather than the community; 2) participation in any political campaign on behalf of or in opposition to any candidate; 3) operating a social club for the benefit, pleasure, or recreation of the organization's members; or 4) carrying on a business with the general public similar to that of a for profit organization. For purposes of determining whether an organization participates or intervenes in any political campaign, all expenditures incurred and time spent on the following must be taken into account: 1) any written or oral statement supporting or opposing the election or nomination of a candidate; 2) financial or other support provided to or solicited on behalf of any candidate, political party, political committee, or Section 527 organization; 3) conducting voter registration or get-out-the-vote drives that select potential voters to assist on the basis of their political preferences; 4) distributing material prepared by a candidate, political party, political committee, or Section 527 organization; and 5) preparing and distributing a voter guide that rates candidates favorably or unfavorably. In addition, any organization participating in political campaigns must include in its calculation expenditures incurred and time spent on the following activities: 1) public communications identifying a candidate that occur within 60 days prior to a general election or 30 days prior to a primary election; 2) conducting an event where a candidate of one party is invited to speak; and 3) any grant to a 501(c) organization if such organization engages in political campaign intervention.

A representative of the organization must make the representations under penalties of perjury. As a result, the organization may determine it is not in its best interest to participate. However, if the organization is relatively comfortable that its participation in political activities will constitute less than 40% of its total time and expenditures, then the expedited approval process will allow such organization to receive a determination letter in a relatively short timeframe and avoid the standard review process.

INTELLECTUAL PROPERTY

PATENT INFRINGEMENT IN THE EXPANDING WORLD OF SOCIAL MEDIA APPLICATIONS

By William Schultz,
Merchant & Gould, P.C.

Social media patents issued to Facebook, Twitter, Apple, and other large companies have been all over the news recently. While big name companies get headlines, untold is the impact of thousands of technology patents granted to lesser known entities that may cover social media applications developed to market and promote products and services.

Social media can encompass any interactive marketing among two or more people across a computer network. Taking this broad definition, old technologies suddenly become social when networked communication is added. This new wave of marketing has created a hotbed of potential lawsuits for companies who market using social media.

Companies would be wise to take proactive steps now to understand and protect their own innovative social media technology.

Understand Your Company's Current Social Media Use

Companies should inventory their accounts with third-party social media sites as well as internally developed social media platforms. The inventory should include copies of the terms of service related to each social media platform as well as vendor agreements with companies who developed the accounts.

Companies should also understand what third-party applications are used in connection with the social media accounts. Many times these applications are subject to additional agreements, which should also be inventoried.

Finally, companies should understand the social media technology it is developing in house and through vendors. Employment agreements and vendor agreements should secure necessary rights and clarify ownership issues. Vendor agreements should also include confidentiality and nondisclosure provisions to prevent the vendor from disclosing your ideas to a third party.

Implement Processes to Protect Your Intellectual Property

Companies often overlook the potential of protecting social media applications with patents. A social media application is patentable when it is new, useful, and non-obvious. In social media, examples can range from a novel approach to determine privacy settings, to reducing the processing power used to send messages via a mobile device – and everything in between.

PROPERTY: PATENT INFRINGEMENT IN THE EXPANDING WORLD OF SOCIAL MEDIA APPLICATIONS

As of March 16, 2013, the United States began using a first-to-file patent system. That means the first person to file a patent application with the United States Patent Office is deemed to have priority on the technology. Once a patent is filed with the Patent Office, the applicant may place "patent pending" on its social media technology subject to the patent application.

Develop Processes to Prevent Infringement

Patent law protects against companies who sell, offer to sell, or use infringing products. That means your company could be liable if you use a third party's technology that infringes a patent. By understanding what applications your company currently uses through the inventory discussed above, you can assess your potential liability.

Most developer agreements protect the developer against liability and place that liability on the company. Often, companies simply agree to the development contract without understanding the risks. Companies would be wise to negotiate indemnification provisions to assess who is responsible for defending against patent infringement.

At a minimum, companies should implement policies to review the terms and obtain proper approvals prior to entering into agreements with social media providers. Simply limiting the number of providers will assist in reducing liability.

Build a Social Media Shut Down Plan of Action

A recent trend has been to shift away from proprietary websites to placing content exclusively on third-party social media sites like Facebook.com. By doing so, companies benefit from the significant traffic on those sites. However, companies often fail to understand the impact if that site is taken down or enjoined from providing certain tools, including the potential removal of the company content.

Companies who use third-party sites should implement a plan of action if that site is taken down. The plan of action may include transitioning your users to another provider or to your website. You should also consider maintaining separate contact information for users gained through social media sites.

Strategize Procedures to Manage Receipt of Infringement Claims

Companies using social media technology may receive a cease and desist letter, demand for licensing letter, or be named in a lawsuit. There is no duty to respond to a cease and desist letter or a demand for licensing letter. If you are facing a lawsuit, however, you may have a deadline to respond, particularly if you are served a Complaint.

Internal procedures should be established to review all patent claims. In addition, patent counsel should be engaged to assess infringement and determine invalidity issues. An accused product only infringes if it operates as set forth in the patent claims. Additionally, a patent can only be enforced if it is valid.

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Once the investigation occurs, you have some options. Do nothing. Often, a patentee will send out letters to thousands of companies hoping for a hit. If you do not respond, the matter may end. Ask for more information. Demand that the patentee provide detailed information about what products are at issue and why it claims infringement.

You can also take a more aggressive stand. First, you can file a proceeding with the Patent Office to challenge the validity of the patent. There are various forms of proceedings available depending on the technology involved. You can also institute your own lawsuit seeking a declaration that you do not infringe or the patent is invalid.

Dealing with patent infringement allegations can be frustrating. Putting a plan of action in place at the outset can reduce frustration and limit the time and expense.

ETHICS AND PROFESSIONAL RESPONSIBILITY

RPC 1.13 AND THE DUTY TO GO "UP THE LADDER"

By Greg Brown and Chris Field,
Lowe Yeager & Brown

Our final installment in this year's Consigliere picks up where the previous installment left off. In the midst of the ongoing ADEA litigation over fired account managers, your CEO tells you that he wants to fire Ed, a manager in the small accounts division (the current lawsuit is in the large accounts division). The problem is, just like the fired managers from large accounts, Ed is a 30+ year veteran of the company. The CEO tells you that an outside consultant reported that Ed is about 8% less efficient than his younger counterparts. His inability to utilize the company's computer network and his reliance on dictation also increases the company's overhead. During your conversation with the CEO, he also reveals his belief that the department "needs a facelift." Incidentally, you think to yourself that Ed needs an actual facelift. He states, point blank, that Ed is older than the small accounts division's growing customer demographic of hip, young restaurateurs in the region's urban centers. You ask him if the efficiency reports, alone, would provide justification for the firing. The CEO responds, "No. I don't run this company based on efficiency reports. Ed's had a long and good career, but his time at this company is over, and that's that."

You know that the basis for this firing is unlawful. You also feel that this situation will likely turn into the company's second ADEA suit of the year. Based upon the ongoing litigation, you estimate that litigation expenses plus a settlement or judgment could easily cost the company in the mid six-figures, if not more. By that measure, the

company stands to lose many times what it could gain by dismissing the account manager. You explain all of this in great detail to your CEO, and you plead with him to allow Ed to ride off into the sunset and collect his gold watch. Unfortunately, your pleas fall on deaf ears. Your CEO is going to fire Ed. What are you required to do under the Tennessee Rules of Professional Conduct?

Under RPC 1.13(b), if an organizational client intends to act in an unlawful manner that is likely to lead to a substantial injury to the organization, a corporate counsel shall take measures necessary to protect the best interests of the organization. Obviously, the fact that the event which triggers a duty under this rule is an unlawful act that is "likely" to lead to a "substantial injury" creates a considerable grey area as to whether an ethical duty to act exists under the rule. Comment 4 advises corporate attorneys that, in making this determination, they "should give due consideration to the seriousness of the violation and its consequences, the responsibility in the organization and the apparent motivation of the person involved, the policies of the organization concerning such matters, and any other relevant considerations." To the authors, it seems clear that (1) the firing violates federal law, and (2) a lawsuit, judged likely to occur, would result in a considerable loss to the corporation. This assessment would support the conclusion that our hypothetical counsel has a duty to act under RPC 1.13(b).

Assuming there is a duty to act, the issue becomes what action is required. The Rule specifies that counsel must take the issue to the higher authority (e.g. the board of directors), unless it is not in best interests of the organization to do so. Comments 4 & 5 set forth additional steps which may be prudent for attorneys facing such a scenario. First, the comments state that it may be advisable to ask the constituent to reconsider the unlawful course of action. The attorney in our hypothetical has done that. It may also be a good idea to explain to the constituent your ethical duty under the rule. If the constituent persists in spite of this opportunity to reconsider, it will then be necessary to go to the higher authority. Comment 4 notes that the corporate attorney should not take the time to extend this courtesy to the constituent if immediate action is required to avert the ill consequences of the stated course.

If our counsel takes the matter to the board, and the board fails to take any corrective action, RPC 1.13(c) specifies that counsel may "withdraw." The rule also requires that, if counsel chooses to withdraw or if counsel is discharged for actions taken pursuant to RPC 1.13, counsel take the necessary measures to assure that the organization's highest authority is informed of the discharge or withdrawal.

Clearly, the most difficult step in the analysis under RPC 1.13 is the initial determination of whether a duty exists. Once that determination is made, the Rule sets forth a clear course of action.

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