

Introduction

This casebook focuses on the legal problems of businesses that develop and utilize intellectual property in their founding, financing, operation, expansion, transfers of ownership, and termination. The legal issues presented in this text are important to law students in both substantive and practical terms. These issues are substantively important because they turn on fundamental policy questions underlying intellectual property and business organization law that remain unresolved and that will have a bearing on a broad range of important intellectual property and business organization controversies. At the same time, intellectual property issues in business organizations are practically important because they correspond to areas of highly active legal practice where law students will need special training and have ample opportunities to apply it.

The text addresses the distinctive roles played by intellectual property at three stages of business development: the start-up phase (where intellectual property often plays key roles in business formation and venture capital financing), the mid-life phase (where intellectual property is often an important factor in going public or selling a business through a merger into a larger concern), and the mature company phase (where successful firms must deal with problems such as preventing abuses of dominant intellectual property positions and remaining competitive in complex high tech markets despite being innovators in only small components of those markets).

The text is designed for law students in advanced classes concerning intellectual property, business organizations, and the law of science and technology as well as for students in intellectual property survey courses. It will also be suitable for business school students in classes with a substantial focus on legal problems of developing businesses. A strong background in intellectual property law is not assumed. Rather, background material on important intellectual property standards is provided in an appendix to the text. In addition, detailed notes are included with the readings on particular intellectual property laws and legal issues mentioned in the materials.

The readings in the text revolve around the problems faced by a hypothetical company, the Digital Ignition Systems Corporation (Digital Ignition). The concerns that face this company as it develops serve as the background or backstory for problems raised in the text regarding specific intellectual property issues. Individual chapters in the book focus on particular types of intellectual property problems encountered at different stages of this company's history. Additional factual accounts elaborating on some of the incidents mentioned in the following overview of Digital



Ignition's history are presented in each chapter to highlight particular contexts and intellectual property problems faced by businesses as they develop.

The Saga of Digital Ignition: Intellectual Property and Business Growth in a Start Up Company

Digital Ignition Systems Corporation (Digital Ignition) was established in Salem, Oregon, in 1980. The company was founded by Y.L. See to develop and manufacture computer-based ignition systems for automotive engines. These ignition systems monitor the conditions inside an automotive engine, analyze those conditions through a specialized computer system and associated software, initiate the injection of fuel into the cylinders of the engine, and precisely control the timing of the ignition of fuel in each cylinder in relation to the position of the cylinder components and the fuel and oxygen content of the cylinder. By using these systems, automobile owners gain significant engine power and fuel conservation benefits over engines with prior ignition systems.

Dr. See received a doctorate in computer science in 1970 from the Nevada Institute of Technology, a prestigious university. From 1970–1975, he worked as a designer of engine parts for the International Motors Corporation, a multinational corporation engaged in the design, manufacturing, and marketing of diverse types of automobiles and automotive equipment. Dr. See worked as part of a design group that specialized in the design of electronic ignition systems for automobile engines.

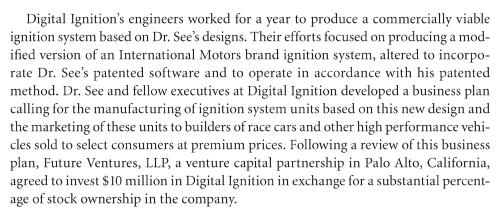
Frustrated by the unwillingness of engineers at International Motors to pursue improved ignition system designs based on new types of computer analyses of engine operating conditions, Dr. See left International Motors in 1975 to form a consulting business aimed at helping designers of race car engines improve the designs and performance of their ignition systems. While engaged in this consulting business, he discovered a computer processing method, which, when applied to electronic ignition designs, produced substantially better engine performance and gas mileage results than prior ignition system designs. In 1980, Dr. See obtained several United States patents covering aspects of his new ignition system designs. Separate patents were obtained for: (1) the computer software implementing his new ignition system control method, (2) an ignition system device incorporating the software and an associated computer and designed to operate in accordance with the method, and (3) the method of information processing in the ignition system itself.

After having obtained these patents, Dr. See formed Digital Ignition to commercialize his designs. His company initially had five financial backers. All of these backers were co-owners of the company along with Dr. See. The five backers included Thomas Carlise, a Salem investment counselor, two former college professors who were also planning to serve as salaried product designers for Digital Ignition, a local dentist, and a member of Dr. See's family.









Digital Ignition proceeded to manufacture and sell ignition systems in accordance with its initial business plan for three years. Its ignition systems received a considerable amount of favorable publicity when several race car drivers and owners cited the systems as a significant factor in their racing success.

Given the favorable public attention their ignition systems were receiving and having gained substantial experience in the operation and manufacturing of these systems, Digital Ignition's engineers developed a version of the company's ignition equipment that was suitable for retrofitting on standard model cars sold by International Motors and other manufacturers. Installation of the new Digital Ignition system as a substitute for a car's original ignition system was easily accomplished by a car owner or mechanic and significantly improved a car's performance and gas mileage. Demand for these plug compatible substitutes for original equipment ignition systems was brisk, and Digital Ignition's revenues and profits grew rapidly. However, Digital Ignition found that its manufacturing and marketing capabilities were not sufficient to keep up with the new levels of consumer demand for its products.

Digital Ignition's executives considered two options to respond to this identified but unmet demand for its products: (1) a merger with a larger concern having sufficient manufacturing and financial resources to expand the company's production and marketing efforts and (2) a public offering of Digital Ignition stock that would raise sufficient funds for the company to expand its production and marketing.

Company managers approached International Motors and several other large automobile parts manufacturers concerning a possible merger. The objective of these discussions with the larger companies was to obtain a buyout price in a merger that would compensate Digital Ignition's founders and initial investors for their efforts in bringing the company to its present stage of business success and positive public reputation. A merger partner acquiring Digital Ignition would effectively acquire several key assets allowing the partner to expand on the business opportunity identified and partially developed by Digital Ignition. Key assets that would come under the control of the merger partner included Digital Ignition's patents, its product production and marketing facilities, and its customer lists and other marketing and production know how and trade secrets. Of these, the company's primary







assets to be transferred in the merger were its patents giving it practical control over the market for ignition systems based on Dr. See's designs for approximately ten more years.

International Motors initially expressed interest in such a merger and Digital Ignition's lawyers drafted a proposed merger agreement. However, merger discussions between the companies ultimately fell through because International Motors refused to pay what Digital Ignition's executives thought was a sufficiently high cash price. Executives for International Motors felt that Digital Ignition did not provide sufficient proof of the probable validity and scope of the company's patents to justify a higher price.

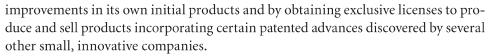
Digital Ignition's executives then shifted their primary attention to a possible public offering of the company's stock. Lawyers for the company spent a considerable amount of time resolving two issues related to this public offering: (1) how should the scope and value of the company's intellectual property interests be evaluated and described in pre-offering discussions with investment bankers and in further public disclosures required by securities laws and (2) what types of risks of patent invalidity or other sources of weakness in the company's intellectual property interests would need to be disclosed in connection with its public offering? The company ultimately filed a registration statement with the SEC and completed its public offering in 1990, raising a total of \$40 million in the process. However, sales of the company's products were poor during the two years following the public offering. The price of the company's stock dropped by 50%, motivating several shareholders to file federal and state securities law suits against the company and several of its senior officers. The plaintiffs claimed that the company's disclosures at the time of the public offering overstated management's understanding of the commercial advantages provided by Digital Ignition's intellectual property interests and omitted mention of known risks regarding Digital Ignition's business plans. These suits were ultimately settled through modest payments to the shareholder plaintiffs.

Eventually, Digital Ignition's sales of plug-compatible ignition systems substituting for original equipment systems were highly successful and the company and its ignition systems gained a positive reputation among a widespread portion of the public. Company executives sought to capitalize on Digital Ignition's favorable public reputation in four ways: (1) developing new products and gaining further patents to extend the duration of its control over key technologies in the area of ignition systems, (2) licensing its patented technology to other companies, (3) offering new products under the trademark Digital Ignition, and (4) attempting to market further unpatented products in conjunction with its popular patented components.

In new product development, Digital Ignition sought to produce patentable ignition system improvements and advanced products that would maintain its technological dominance over this narrow area of the automotive products market and allow the company to continue to maintain its image as a product innovator in the eyes of consumers. The company sought to produce advanced products in the ignition equipment field that were unavailable from other sources by both developing and patenting







At the same time as it acquired farther intellectual property rights from other concerns, Digital Ignition also attempted to maximize the value of its own patents and other trade secret rights by licensing other parties to make and sell products and sell products based on Digital Ignition's patented designs and transferring related trade secret know how to these licensees. International Motors, by now regretting that it had not acquired rights to Digital Ignition's products through the previously proposed merger, sought to obtain an exclusive license to include products based on Digital Ignition's designs in newly manufactured International Motors vehicles. As part of the resulting license agreement, Digital Ignition agreed not to license any other car manufacturer to include products based on Digital Ignition's designs in newly manufactured vehicles. However, Digital Ignition retained the right to continue to manufacture and sell ignition systems based on its patented designs for use as plug-compatible replacement parts substituting for original equipment ignition systems in diverse types of cars.

International Motors enjoyed a significant increase in auto sales following the addition to its cars of ignition systems based on Digital Ignition's designs. The success of the company coupled with the apparent inability of other new car manufacturers to offer automobiles with similar ignition systems caused several of the other manufacturers to complain to the Federal Trade Commission (FTC) regarding Digital Ignition's licensing practices. The FTC initiated an investigation of Digital Ignition to determine if its licensing practices constituted an unfair trade practice in violation of federal laws.

A further problem arose when Digital Ignition developed and patented an improved ignition system five years after its original license agreement with International Motors. The improved design incorporated and extended Digital Ignition's original patented design. Digital Ignition contended that its licensing agreement with International Motors did not require it to license the new patent to International Motors. However, since the licensing agreement provided that the right to produce and sell ignition systems conforming to the original patented design could not be transferred to any new car manufacturer other than International Motors, Digital Ignition was practically precluded from licensing its new patent to any other company because it could not validly authorize any other company to produce the ignition system features covered by the original patent that were also incorporated in the new design. Negotiations between Digital Ignition and International Motors regarding a license to the new patent broke off after the parties failed to reach an agreement on royalty terms.

Impressed by the positive image of Digital Ignition among automobile owners, the company sought to capitalize on the use of the Digital Ignition trademark. It sought to manufacture and market its own line of automobile repair products under this trademark, to license other manufacturers to market automotive products







under this trademark, and to license further manufacturers to market tee shirts, hats, and other clothing items bearing this trademark.

Digital Ignition also sought to use its success in marketing its initial patented products to expand its sales of related, non-patented products. It developed and sold a new version of its patented ignition system that could only be bought in conjunction with cables that were included in the product packaging. Previous Digital Ignition products had not been packaged with such cables, but the company asserted in its product marketing literature that the new design of its product was particularly sensitive to the use of the proper cables and that, to ensure consumer satisfaction, the new design was being sold only in conjunction with the bundled cables. Both consumers and independent cable sellers raised complaints about this new marketing practice of Digital Ignition, asserting that it improperly precluded free competition for sales of the relevant cables.

This brief overview identifies the many important roles that intellectual property and related legal problems can play in a company like Digital Ignition. The readings in this text address some, but not all, of these key developments in the founding and growth of Digital Ignition. In addition, further legal problems that the company encounters in developing and marketing its intellectual property are examined in particular chapters. Collectively, these problems represent critically important challenges faced by many companies in our modern economy and correspondingly significant opportunities for attorneys to aid businesses as problem solvers regarding intellectual property assets and infringement threats.

Typical Legal Problems in an IP-Based Business

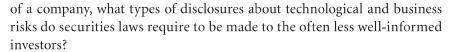
The overview of Digital Ignition's business history illustrates a number of the typical legal problems faced by an IP-based business. These problems, many of which will be addressed at length in the text, revolve around such questions as:

- (1) What types of IP are created and protectable when a new business (such as Digital Ignition) revisits and adds new technology to the products of an older business (such as automotive products produced by International Motors Corporation and many other car companies)?
- (2) When does the transfer of an engineer or other employee from one company to another illegitimately transfer IP as well as employment?
- (3) Where new IP is developed in a company, how can its possible roots in the work of another company be traced and when will the other company have rights to control the new IP and its use?
- (4) What are the business management advantages of different types of IP protections concerning newly created IP?
- (5) Where investors and business managers with different technical and business sophistication come together in shared ownership and management









- (6) What interests do venture capitalists and other sources for funding of IP-based businesses have in IP protections and how can these aspects of IP protections be maximized by companies seeking funding?
- (7) How can a company with some initial success in using its IP to gain funding and to establish preliminary business operations extend and improve its IP to increase its future success?
- (8) How is IP handled in a merger or other corporate acquisition and how will parties seeking to acquire a company evaluate that company's IP in connection with such an acquisition?
- (9) What types of scrutiny of IP should precede an initial public offering (IPO) of stock in an IP-based business and what disclosures about IP must be filed with securities regulators in connection with such an IPO?
- (10) Once a company grows large, how may antitrust laws impose special restrictions on how the company can use its IP in future business activities?
- (11) For well-established companies, what means are available to systematically reduce the risk of infringement of IP held by other concerns and to reduce the business consequences of unanticipated IP infringement?
- (12) For well-established companies, what means can be used (both internally and with outside partners) to maximize the value of the IP that the companies produce, control, or use?

Functions of Intellectual Property in Business Activities

One of the key objectives of this casebook is to illustrate the functions of IP in businesses and the types of legal issues and activities of attorneys that surround these different types of IP functions. IP plays at least four different types of important functions in business settings.

IP as a Business Product

IP newly generated by a business can be a fundamentally important business product. From movie companies to pharmaceutical drug manufacturers, diverse types of businesses develop and market products that are based on newly created IP. While product production activities (such as the manufacturing of pills or other pharmaceutical drugs) may create elements of product value by delivering IP to consumers, the real value in many business products (and in the businesses that produce the products) lies in the new discoveries and creative products protected by the companies' IP.









Absent the promise of IP protections providing exclusive opportunities to market and realize the commercial value of their creative products, many businesses would see little advantage in spending large amounts on creative projects and would tend to adjust existing practices in relatively uncreative ways to produce proven older products at the lowest prices possible, rather than producing new ones through greater creative efforts.

Selling products containing innovative IP is not the only way that companies can capture the value of newly created IP. One additional way to realize the value of newly created IP is to license others to use the IP in exchange for a royalty payment or to assign the full set of IP rights protecting an advance to another party in exchange for compensation. Yet another, more elaborate way to realize the value of newly created IP is to sell a company or major business unit containing the IP to another party. This is often beneficial because the transfer can include the IP plus the personnel and resources needed to use the IP effectively, potentially producing a higher value and compensation than a transfer of the IP standing alone.

IP as a Business Input

Where IP is not homegrown within a company, it can still be acquired from another party as a key input to business activities. Important IP such as commercially significant trade secrets may instruct company personnel on how to accomplish some business task. Rights to use a cartoon character may provide the basis for a new marketing campaign featuring TV commercials and print ads with the character. Rights to use a famous trademark (such as the Pepsi logo) may provide the basis for a line of clothing with the logo prominently displayed on various types of garments. In these settings, rights to use otherwise restricted IP provide the bases for new business activities and new profit making opportunities.

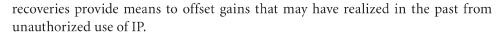
Access to IP held by others is particularly valuable where the acquired IP enables the recipient to make better use of other assets already held by the recipient. The combination of existing assets (which may include complementary IP already held by the recipient) and the acquired IP can create synergy effects and increased value that could not exist without the acquired IP. In some cases, complementary IP acquisitions may flow in both directions in an IP acquisition transaction, as when two parties each controlling key patented technologies cross license their technologies, thereby giving both parties full access to the pool of technology represented by both their patents.

IP as a Constraint on Activities of Others

Because they typically enable IP owners to exclude others from the use of IP without permission, IP rights can be means to limit the IP-related activities of competitors to the IP owners and of other unauthorized IP users. Injunctions in IP suits provide means to force parties to stop unauthorized uses of IP, while damage







Rights to exclude others from unauthorized use of IP also have business planning implications. Parties that are sure that they will be the only parties who will be able to employ IP will often take this into account in their planning and back their exclusive use of IP with major commitments of complementary resources. For example, confidence that they will be the only party to market a product with a patented feature might encourage a company to invest in the manufacturing processes and marketing efforts needed to gain consumer acceptance of the new product and to produce and distribute sufficient units of the product to get that product into consumers' hands.

IP of Others as Constraints on Business Conduct

Constraints imposed through IP interests held by other parties can operate as significant business restrictions, potentially limiting a company from offering a particular type of popular product or product feature if that product or feature is controlled by IP rights held by others and appropriate permission to produce and sell the product or feature cannot be obtained from the IP rights holders. Care in the designing of new products, services, or business practices is often needed to avoid intersecting with the IP rights of others and thereby setting up potential business disruptions and losses when these rights are enforced.

Early detection of potentially conflicting IP rights can provide businesses with favorable options to proceed. A business may be able to avoid a practice or product design that would conflict with IP rights if undertaken or adopted in the future. This type of modified conduct (which is more easily adopted at early stages of planning business practices and product designs) will avoid placing future business activities under the control of IP rights holders. Another option is to acquire rights to use the IP in question, with negotiations for such an acquisition undertaken from a position of strength since the company has not yet committed to use the IP and can simply walk away from unfavorable terms offered for a license or other type of IP acquisition. On the other hand, late recognition by business managers that their company's practices (which may be the objects of considerable resource commitments) are already in conflict with the IP rights of another party may place the company in an extremely bad position. A company in this sort of fix must either stop its related activities to avoid further IP misuse (thereby wasting its resource commitments concerning these activities) or acquire the needed IP under disfavorable terms dictated by the IP owner because the acquiring party has so much at stake in getting the IP and continuing the company's related activities.









Why IP and Business Law Interactions are Problematic

Business practices involving IP development and use create a number of especially difficult problems under a variety of business laws. Heightened problems related to interactions between IP and certain business law requirements are central topics in this text. Unusual and often difficult business law issues in connection with IP tend to arise in the following areas.

Building New Types of Businesses

IP can create the basis for unprecedented types of businesses, requiring the rethinking of many business law doctrines and issues. For example, patented Internet searching and site indexing methods developed by Google form the basis for that company's very new and very different type of business. The nature of this firm's IP-based business model (and the further ways that Google uses the IP of other companies in advertising products and producing income) raise new types of business problems and related types of business law concerns.

Establishing New Business Techniques

IP can provide new means for operating old types of businesses. For example, IP embedded in new software has facilitated computer-based updates of numerous business practices in fields from accounting to sales presentations. The ways that IP may be misused or produce harmful consequences has grown with the increased use of IP-based practices in diverse business settings. The increased usage of IP also expands the circumstances where the IP and its use may need to be evaluated and described (as in required descriptions to investors of key business practices).

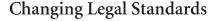
Shifting Methods of Measuring and Realizing Business Value

New types of businesses or business methods based on IP have raised corresponding problems in evaluating the value of businesses and reporting on such value in legally significant contexts. IP valuation problems arise in many types of legally significant transactions, from stock sales, to mergers, to tax liability reporting. The centrality of IP in many businesses sometimes leads to misstatements about the nature or validity of IP in fraudulent statements about the value of businesses. Even where misstatements are made without an intent to deceive, materially misleading descriptions of IP and its business implications may still figure in legal controversies such as claims based on misstatements about IP that are insufficient to meet disclosure requirements of securities laws applicable to publicly traded companies.









As technology has rapidly changed the nature of IP and how we use it, many new legal standards have grown up in the IP field and in surrounding business law settings. These new standards help to define when IP use is actually misuse and grounds for a remedy. However, the new standards may also specify when IP usage or ownership has implications concerning business law issues. Changing standards concerning both IP and business laws have produced new uncertainties about the range of legitimate activities that companies can undertake and to more and more instances of inadvertent IP misuse and unexpected liability.

Unexpected Business Risks

Because the business activities that create and use IP are changing, the business risks associated with IP creation and use are not well understood. For businesses that create and use IP, uncertainties about the operating risks they will encounter sometimes leads to unexpected business failures as well as to tendencies to make overly optimistic statements about the likelihood of business success in legally significant representations to other parties. For outsiders investing in or relying on IP-based businesses, unexpected risks in the operations of IP-based businesses may lead to poorly-informed investment decisions or to reliance on IP-based businesses for performance that the businesses will not be able to complete. The chances for misplaced reliance on the future performance of an IP-based business are particularly high where the parties on opposite sides of a transaction have different levels of knowledge about particular IP and its business significance, with one party well understanding and accommodating the risks associated with the IP and the other unknowingly accepting the risks because they fall outside of that party's business experience.

New Means for Risk Spreading

As business managers have gained experience with IP, new business methods have developed to spread the business risks associated with IP development and use. Different forms of insurance have helped companies bear the expense of unexpected IP infringement liability and of IP enforcement costs. In some instances, risk spreading methods have spawned whole new types of businesses. For example, the business of a non-practicing entity (NPE) or patent troll (that is, a patent holder that does not expect to produce patented items but that acquires patents and seeks profits solely from enforcement of patent rights to gain licensing royalties) is aimed at shifting the patent enforcement function and associated risks out of the hands of the prior patent owners and into the hands of the NPE. A patent owner transferring a patent to a NPE gives up the risks of patent enforcement in exchange for immediate compensation for his or her patent. The NPE takes on the risks of enforcement and backs enforcement









with new resources and specialized enforcement efforts, with the expectation of gaining (on average) more than the entity has paid for the relevant patent. This business model offers new means for risk shifting and patent liquidity (by making a market for immediate transfers of patents from innovators and other patent owners), but does so at the price of increased litigation and heightened patent licensing costs for product producers. These sorts of new risk shifting devices have raised significant new legal issues and business problems as they have affected ever broader and more important types of IP.

Lawyering Skills for Assisting IP-Based Enterprises

The exercises and questions in this text are aimed at giving students experience with some of the lawyering skills that are particularly important in counseling and otherwise assisting IP-based businesses and organizations. Skills concerning IP litigation and dispute resolution processes are very important in assisting IP-based companies with disputes involving large damage amounts and potentially devastating injunctive relief. However, transactional lawyering skills of various types are often even more important in assisting IP-based businesses with planning and implementing actions to build and realize the value of their IP generation and use. Executives in IP-based businesses frequently need to plan for effective development and use of IP (and to plan for ways to avoid the misuse of IP of others as much as possible) and are accordingly particularly interested in forward-looking advice and assistance from their IP and business lawyers. Hence, lawyering techniques which emphasize business planning in light of IP considerations are highly valuable in counseling IP-based businesses and organizations.

Some of the lawyering skills emphasized in this text include the following.

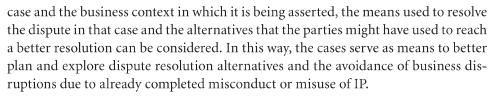
Reading Cases as Planning Tools

The cases reprinted in this text are good sources of information about legal standards in the same way that cases in other courses provide information on the legal standards of importance in those courses. However, the cases here should also be considered in a different way and for a different purpose. Each case serves as a case study in how one or more parties created legal problems and tried to resolve them. By turning back the clock and considering the situations confronting the parties in each case at a stage when the parties could have acted differently, the ways to avoid or minimize similar controversies and problems in the future can be explored, making each case a starting point for planning lessons and learning.

Two types of planning can be considered in this way. First, the cases in the text can be used to evaluate how to resolve a dispute once the facts leading to the dispute are already set in stone and the only uncertain point is what relief or other response to apparent liability will occur. By considering the basis of asserted liability in each







Second, the cases can be used to study preventive practices for avoiding IP liability and misuse altogether. This type of evaluation (involving techniques of preventative lawyering) involves examining the facts of each case and going back even further in time to the point before which IP misuse occurred. By considering why IP misuse occurred (and why it remained undetected to the point where it created a significant threat of liability), the means to prevent similar IP misuse and concealment in the future can be considered. Planning for these types of liability prevention techniques emphasizes systematic management actions (such as articulating standards for IP use, training employees, and monitoring regularly undertaken practices) to prevent IP misuse and to maximize the legal protection of valuable new IP. By using the facts of the cases as the starting points for assessments of management practices that would have either prevented the types of IP problems present in the cases or that would have detected these problems at earlier stages when they could have been dealt with in less damaging ways, cases in this text can facilitate valuable discussions of the lawyering skills that will best aid business executives in planning ongoing IP management practices in IP-based enterprises.

Collaborating with Business Executives and Business Law Specialists

Many modern business decisions are influenced by combinations of IP features, other types of legal considerations, and further business management factors. Complete consideration of decisions turning on factors like these requires contributions by and effective collaborations between the holders of IP, business law, and business management expertise. Consequently, the means for IP specialists, other business law specialists, and business executives to work together effectively are critically important skills in helping executives in IP-based businesses to reach decisions that maximize the value of IP and IP-based activities in these businesses.

In the problems presented in the text, the roles of IP specialists in resolving the problems and the ways that IP specialists typically work with other specialists are emphasized for several reasons. First, this focuses students on their future contributions as IP lawyers—that is, on the completion of distinctive IP-related analyses that should be their first considerations in working on complex business problems because, as IP specialists, they bring IP knowledge and expertise to the resolution of these problems that might otherwise be overlooked. Second, an appreciation of the expertise being contributed by other specialists will suggest areas where IP specialists should ask questions of others or defer to the analytic criteria or frameworks established by others. Third, by reviewing cases illustrating settings where business









executives and other organizational managers have had personal interests and agendas that diverged from those of their organizations, IP specialists can better identify settings where parties they are working with may not be fully meeting their organizational duties and, therefore, not fulfilling their normal roles as collaborators, such that the IP specialists may wish to consult with other organizational leaders.

Providing Executives with IP-Based Risk Information

As companies rely increasingly on IP and the business opportunities that depend on IP protections, the nature of IP-related business risks has grown tremendously. This means that several kinds of IP-based risk information need to be considered by business executives in order for them to make well-informed business decisions and to shape future activities in IP-based businesses to maximize the potential for business success and minimize risks of company losses.

A number of types of business developments may raise important IP-based business risks that should be taken into account by corporate managers and that will require extensive advice to such managers by IP specialists. The unexpected presence of unlicensed IP interests of another party may threaten large losses if enforcement of the unanticipated IP means that a company cannot continue with activities that have already received major commitments of resources. The unexpected invalidity of the company's own IP interests may mean that it will not have the exclusive opportunity to commercialize certain products and may realize reduced corporate profits accordingly. Changes in the law may strengthen or weaken the implications of IP for a company and its business practices and plans, leading to new types of business risks. Changes in company activity may cause the company to produce new IP or to encounter the IP of others in new ways, each with new IP-based business risks. IP specialists play increasingly important functions in shaping the management decisions of IP-based businesses by identifying changing risks like these and in working effectively with business managers to analyze these risks in ways that help the managers take these risks into account in making business management decisions.

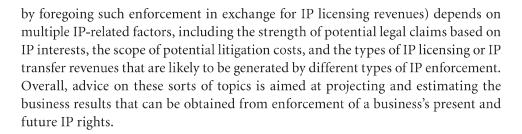
Considering IP as a Source of Value in Business Operations

In recent years, a variety of companies have come to view their production of new IP as an important source of new business assets and profits. Just as the creation of new products sometimes leads to new sales opportunities, the production of new IP can create new IP transfer or licensing opportunities and new revenue streams. IP lawyers can sometimes assist their clients by thinking like entrepreneurs and addressing the creation of new IP as a new business growth opportunity.

The skills needed by lawyers in advising business executives on the use of IP as a business asset and profit source are somewhat different from the skills normally used by lawyers in assessing the strength of IP rights or litigation matters. The profit potential associated with the enforcement of IP rights (and the profit that might be realized







Working with Executives on Systematic IP Management Practices

Careful planning of a business's generation and use of IP and of the prevention of misuse of the IP of others can have important impacts on business performance. IP specialists can aid clients in planning for IP use and preventing IP misuse by focusing on systematic management programs for addressing IP production and use in business organizations. These sorts of IP management programs—built on the same management techniques that companies use to address other important aspects of business performance such as product safety or financial reporting—involve careful attention to such steps as standard setting, employee education, reporting on corporate performance, audits of key aspects of performance, and evaluations and business practice reforms following incidents of poor performance. All of these steps are needed in a complete management program to maximize the benefits of IP use in a company. IP specialists can play key roles in helping company managers to implement IP management programs by coupling the specialists' knowledge of IP rights and interests with further advice on how to use standard corporate management techniques to maximize these rights and interests.

Beyond the implications of IP management practices in maximizing the value of IP and IP-related business activities, the adequacy of IP management actions can have liability implications outside of IP law. For example, where corporate officers mismanage the creation or enforcement of highly valuable IP rights, these individuals may breach their duties as corporate officers leading to personal liability for resulting losses to their company. These sorts of implications of poor management of IP rights and interests heighten the importance of systematic attention to corporate programs for maximizing the creation and use of valuable IP rights and for preventing the infringement of IP rights of other parties.

These business impacts suggest the importance of IP in modern business management. This text is aimed at aiding students (both law students and business school students) in future endeavors to guide businesses toward the effective generation and use of IP.





