

Why General Counsel Should Pay More Attention to Intellectual Property

By Raymond Millien

I recently attended a reception for in-house counsel sponsored by a well-known, national legal services provider. While there, I met a general counsel (GC) of a large organization. After the usual introductions and pleasantries, our conversation migrated to the products and services offered by our respective organizations. Our conversation progressed as follows:

GC: "So, your company does IP?"

RM: "Yes. We essentially value, buy, and sell IP assets."

GC: "IP. You mean patents and stuff?"

RM: "Yes, intellectual property—patents, trademarks, copyrights, and trade secrets."

GC: "Oh. You know, I have six patent attorneys on my staff."

RM: "Six?! That's a lot compared to most companies! What do they do?"

GC: [**Chuckling**] "To be honest, I'm not sure."

RM: "You're not sure?"

GC: [**Still chuckling**] "I should really pay more attention, but as long as they don't report any problems to me, I don't really pay attention to them."

RM: "Well that's at least \$600,000 in salary you're paying them and you don't know what they do?!"

GC: "Well, it was nice meeting you."

While the above example of a general counsel ignoring IP may be near the extreme end of the spectrum, it is not rare. How much do you know about your company's IP? Given today's economic realities and recent headlines, failure to pay attention to IP may prove to be fatal to GC careers and a blow to the shareholder value of the companies which employ them.

From Labor to Knowledge

In the last 30 years, there has been a shift from a labor-driven economy to a knowledge-based economy. For the first time since the industrial revolution, the percentage of American workers employed in manufacturing has fallen below 10 percent and may be as little as five percent.¹ Consequently, intangible assets produced by a more highly-skilled and services-oriented workforce have emerged as the most powerful asset class, overtaking traditional capital assets such as real property, plant, and equipment. (Intangible assets can be defined as long-lived assets used in the production of goods and services, including IP rights, know-how, software, databases, and certain contractual rights such as leases, mining rights, FCC and other broadcast licenses, governmental permits, drilling rights, customer, and supplier agreements, etc.) Independent research, conducted by Ned Davis Research, Inc. and commissioned by Ocean Tomo, has demonstrated that as much as 80 percent of the value of a US publicly-traded company now comes from intangible assets. This is an inversion from 30 years ago when only 20 percent of a company's value came from intangible assets, and is significant because the largest component (or subset) of intangibles is intellectual property. Further, data showing that small businesses generate 13-14 more patents per employee than large firms² would empirically suggest that this "80/20" inversion applies, if not more so, to smaller (and private) companies as well.



RAYMOND MILLIEN received his BS from Columbia University and his JD from George Washington University. He is general counsel of Ocean Tomo, LLC. Established in 2003, Ocean Tomo is an intellectual capital merchant bank with over 70 professionals providing advice in IP-related mergers and acquisitions, IP valuation, expert services, analytics, ADR, and auction services. He can be reached at millien@oceantomo.com.

This article reflects the author's current views and should not be necessarily attributed to his former, current, or future employers or their clients.

This trend has, of necessity, shifted the emphasis in asset valuation from physical property to intellectual property and to the legal rights that inhere in the latter."³ In fact, one scholar noted as far back as 1992, that "IP rights—especially those in the form of patents—will represent the most significant form of wealth in the new millennium."⁴

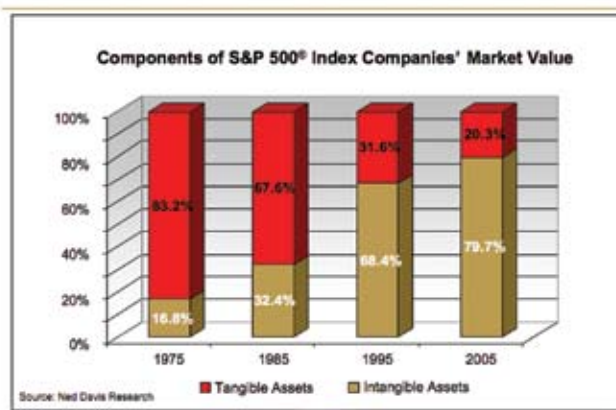
This macroeconomic "80/20" inversion over the last 30 years suggests that the practice of GCs primarily focusing on their in-house securities and litigation attorneys, while having no in-house IP counsel, is antiquated and no longer appropriate for a 21st century company. Many C-level executives and directors would be surprised to learn that their general counsels—on whom they rely for legal guidance—neither grasp, nor significantly focus on, IP. Many would also be surprised to learn that even GCs at entertainment companies where "content is king," fail to understand basic copyright law which protects the king (i.e., the very assets chiefly responsible for creating value for their shareholders).

Paul Revere or Chicken Little?

Many scholars and so-called experts have long sounded alarms in their speeches and writings about the growing importance of IP and the dire consequences of ignoring it. The 1999, groundbreaking book *Rembrandts in the Attic*⁵ was the vanguard of the latest wave of IP apprehension and curiosity. Were these real or false alarms? Unfortunately for the unprepared, most were real. How real? Well, nothing serves to force members of the bar to pay attention and get educated like some real-world horror stories and facts:

- In 2005, the top 25 IP damage awards and settlements averaged over \$241M.⁶
- In 2005, the average cost of patent litigation was over \$2M, \$750K for trademark litigation, and \$555K for copyright litigation.⁷
- In the past five years, patent litigation has risen 11 percent, trademark litigation has risen 15 percent, and copyright litigation has doubled.⁸
- In 2006, the CEO and GC of Bristol-Myers Squibb were fired for a widely-publicized mishandling of an IP-related matter.⁹
- In 2006, there were over 11,000 IP suits filed.¹⁰
- In 2006, IP-related damage awards and settlements totaled \$3.4B.¹¹

GCs must realize that we are no longer in the era in which



The identification of this inversion is not new. Alan Greenspan recognized, in 2003, that: "In recent decades . . . the fraction of the total output of our economy that is essentially conceptual rather than physical has been rising.

ACC Extras on... Intellectual Property

2007 ACC Annual Meeting

Join ACC in Chicago at the 2007 Annual Meeting, October 29-31 and attend open discussions of legal issues which will include such topics as on-line IP asset management tools, time/money saving techniques, and working with management to manage their expectations as to what it takes to have an effective IP strategy.

Register for the below sessions at am.acc.com:

- Maximize IP Strategy Efficiencies,
- International IP Law Strategy,
- IP Horror Stories,
- Tackling Counterfeit & Gray Market Goods,
- Practical Tips Regarding IP Indemnifications, or
- IP Issues & Industry Standards.

ACC Docket Articles

- *Basic IP Issues For Taking Your Product To Market* (July/August 2005). Almost any product will raise issues involving trademarks, copyrights, patents, and possibly trade secrets. In our product-in-a-package example, the Toolkit addresses IP issues for each layer of the product's packaging—the box, the labels, the packaging itself, and the product inside. www.acc.com/resource/v5890
- *Before Signing Your Next Nondisclosure Agreement, Count to Ten* (January 2006). Nondisclosure agreements (NDAs) safeguard a company's protected or secret trade info from disclosure by employees, vendors, and other trading partners. But they are often drafted in haste at the end of a long deal—and companies can find themselves accused of breaching them through seemingly innocent conduct. Avoid NDA battles by evaluating proposed agreements with the 10 questions, ranging from scope to procedures to secrecy, detailed in this article. www.acc.com/resource/v6643

InfoPAKs

- *Intellectual Property* (2005). This InfoPAK is designed to provide corporate counsel a general overview of intellectual property and to suggest useful practices for the handling of intellectual property issues in the corporate setting. <http://acc.com/resource/v5791>
- *Role of the General Counsel* (2007). This InfoPAK provides some definition of the role, scope and nature of the duties of a general counsel in a post-Enron, Sarbanes-Oxley world. By noting some of the issues that arise in the ordinary course of an in-house counsel's practice, this InfoPAK will help general counsel provide high-quality representation for their corporate client. <http://acc.com/resource/v6685>

Sample Forms, Policies, and Quick References

- Copyright Assignment and Release Form (2006). www.acc.com/resource/v8011
- Copyright Law Checklist (2006). www.acc.com/resource/v8010
- Corporate Property Rights and the Media (2006). www.acc.com/resource/v7283
- Invention Disclosure Form (2006). www.acc.com/resource/v7888
- Legal Due Diligence Checklist (2006). www.acc.com/resource/v6710
- Sample Open Source Code Chart (ACC Quick Reference 2006). Includes license comparison chart. www.acc.com/resource/v7912
- Sample Software License Provisions (2006). www.acc.com/resource/v7959
- Trademark Policy (2006). www.acc.com/resource/v7619

only a small handful of large “old economy” companies were concerned with IP rights and assets. The IP marketplace has matured and continues to do so. The modern era is one of “IP for the masses,” in which the IP marketplace operates according to the “Golden Rule”—those with the gold (i.e., IP rights) make the rules. Consequently, this new era has brought about the rise of intermediaries such as patent licensing and enforcement companies (PLECs or so-called “patent trolls” who offer no products nor services, but simply exist to enforce patent rights) and IP outsourcing companies who seek to profit from IP. Neither the U.S. Supreme Court's decision in *eBay, Inc.*

v. MercExchange, L.L.C.,¹² which weakened the ability of PLECs to obtain permanent injunctions, nor any of the so-called “anti-patent troll” legislative proposals (e.g., creation of post-grant opposition, limitations on venue, apportionment of damages, etc.) floating through Congress will make such entities go away, and companies who insist on behaving as though the old era of IP rights is still extant will suffer.

Admittedly, there is one alarm that has proven not to be quite real—the forecasting of massive IP class actions and shareholder lawsuits. But the day for such suits may very well come.¹³ Informal research by Ocean Tomo has

Thus, in a **competitive** corporate America environment, as news of this **new IP religion spreads**, how long before your company's legal department and its IP program is **judged** and **benchmarked** against **these leaders** of the pack?

revealed that there have been some 26 IP-related class action suits by shareholders alleging mismanagement of corporate IP assets between 1984-2005.¹⁴ This is not surprising given the fact that intangibles account for some 80 percent of a company's assets, and if they are not being properly managed and monetized, someone at the company should be held responsible.

Further, in a post Sarbanes-Oxley Act world, Sections 302 and 404 require public companies to have adequate internal controls for all information required to be disclosed in its public filings. In a 2003 survey of senior corporate executives, however, 49 percent said their company relied primarily on intangible assets to create shareholder wealth, yet only 5 percent had a robust system in place to measure and track the performance of such intangible assets.¹⁵ It is only a matter of time before Sarbanes-Oxley, the 80/20 macroeconomic inversion, and the escalating IP monetary damage awards and settlements collide. Will the plaintiff's bar not notice this collision and begin to initiate IP-related class actions? Sure. But when, and how long after the breast implant, tobacco, asbestos, Katrina, Vioxx®, and tech-boom IPO related class action litigations is anyone's guess. A commercial, however, recently debated on Bloomberg Television by a Boston-area plaintiffs firm which spends \$6M on annual advertising, asking: "Are you an inventor? Has your patent been infringed?"¹⁶

I Hear You, but Why Should I Really Care?

If the threat of job loss, declining shareholder value, patent trolls, high IP litigation costs and class action lawsuits don't convince you, then perhaps you're one more motivated by positive reinforcement rather than threats of negative consequences. Thus, we turn again to shareholder value.

The landscape for IP has dramatically changed in the past decade. Corporations have begun to realize the value of their IP and begun to aggressively exploit these assets. In the US alone, IP licensing revenue accounts for approximately \$45B in annual revenue, and \$100B worldwide.¹⁷ In some instances, the proper management and exploitation of IP assets can be a major source of a

company's income (e.g., IBM, BellSouth, HP, Motorola, and Texas Instruments) and measured in the hundreds of millions of dollars.

Thus, in a competitive corporate America environment, as news of this new IP religion spreads, how long before your company's legal department, and its IP program is judged and benchmarked against these leaders of the pack? Corporate America's GCs will all eventually be asked by the C-level executives to whom they report: "What are we doing about IP?"

The Challenge Ahead

Now that you are convinced that you need to pay more attention to IP, what do you do now? Well, starting an IP program is not easy nor a short-term exercise.

Even if you have an IP program, it will take time to produce shareholder value that shows up on a company's income statement. This is because IP is currently an illiquid asset class that typically requires a significant investment of time and resources to successfully transact. There are numerous challenges associated with monetizing IP. These include:

- a lack of a transparent and efficient marketplace;
- the vast majority of IP (especially patents) eventually prove to have little to no value;
- the complexity in assessing the value of IP; and
- the inclination of certain companies to have specific policies against reviewing external licensing opportunities (i.e., the "not invented here" mentality).

Further, IP sale and licensing campaigns often face challenges such as protracted timing and large gaps between buyer and seller value expectations. The realities and challenges associated with IP transactions can make for a prolonged and frustrating experience for any IP rights holder who does not have a realistic view of the process. For companies with no IP program the evolution to build an IP program often occurs in three phases. First, a company will build the infrastructure (i.e., the policies, plans, and people), and rush to build an IP portfolio. This is usually spurred by defensive reasons

Six Steps GCs Should Take Now

1. Educate Yourself and Your Staff

If you are not an IP attorney yourself—and an overwhelming majority of GCs are not—seek “IP 101” training. Then, require such training for all your attorneys no matter what specialty or department. These attorneys will never call upon in-house or outside IP counsel if they cannot even spot the IP issues. Obviously, not all your staff attorneys will or should become IP experts. They should, however, know enough to know when they don’t know enough so that they can call upon in-house or outside IP counsel before it is too late.

2. Elevate the Chief IP Counsel Position

If your chief IP counsel reports to someone, who reports to someone, who reports to you—consider making the position a direct report. A direct reporting structure (and a compensation package reflective of such reporting structure) will help you recruit and retain top IP talent. Like building a football team, it all starts with the quarterback. If your company does not have such a position, all is not lost. Oftentimes, it is easier to create a position the “right way” than to fight corporate tradition which may be the “wrong” (or not the optimal) way.

3. Create a Corporate IP Policy

Persuade your boss (i.e., the CEO) to issue a Corporate IP Policy, drafted by you and your chief IP counsel, which will communicate to all employees—especially business division leaders—that IP is important to the company’s bottom line and thus will affect their annual compensation. Without such a policy “blessed” by the CEO, you and your in-house IP staff may find it difficult getting senior and mid-level management’s support and cooperation in building an effective IP program.

4. Draft an IP Plan

Even a great quarterback needs a good game plan. Likewise, building an IP program within the legal department will take time. Thus, once your chief IP counsel is in place, they will need your help in drafting a long-term plan with measurable, reasonable, and escalating annual goals (e.g., number of patent applications filed, number of registered trademarks, licensing revenue dollar or number of transaction goals, completion

dates for identifying an “IP liaison” within each business unit, and completion dates for business unit-by-unit IP audits, etc.). It is common to hear Six Sigma practitioners at companies such as General Electric and Motorola recite the adage: “If you can’t measure it, you can’t manage it, and if you can’t manage it, you should not be doing it.” Unfortunately, regardless of whether your company is small or large, public or private, not doing IP is not an option.

5. Set a Budget

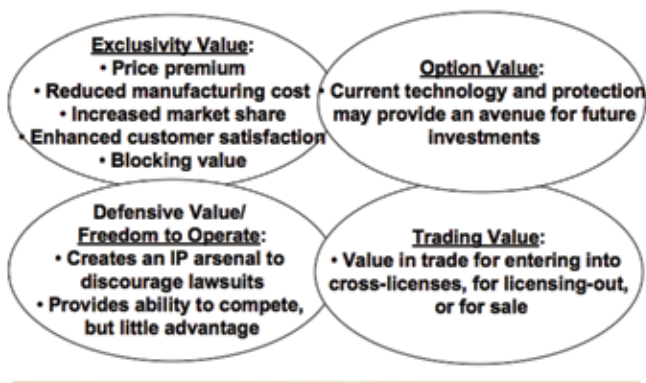
Now that you have a corporate mandate, a quarterback and a game plan, you need to have the financial resources to build the rest of the team and purchase the equipment they need to play the game properly. Traditionally, a company’s IP-related spending by the legal department has been handled in one of two ways—either there is a central IP budget within the legal department, or IP-related expenses incurred by the legal department are charged to the relevant business unit on an expense-by-expense basis. Several hybrids of these two models have also been employed. Regardless of the model employed by your company, if you do not allocate a budget for auditing, filing, policing, licensing, and enforcing the company’s IP in the beginning of each fiscal year, as well as for the personnel who will perform these tasks, then every dollar you spend is over budget.

6. Become an IP Advocate in the Boardroom

Despite hiring a chief IP counsel and building a winning IP team, you will most likely be the most knowledgeable IP attorney in the boardroom when important corporate strategy decisions are made. This means that you will have to be responsible for showing the company’s senior management how: IP may positively affect or even drive a deal; to think about IP when there is an impasse or dispute with other companies; and licensing the company’s IP to create “win-win” situations may often offer a better competitive advantage than keeping it proprietary. Thus, you must add an IP item to your mental checklist as senior management seeks your legal counsel on all matters. This will no doubt develop as you interact more and learn to trust your chief IP counsel to keep you informed on the latest IP developments.

such as threat of a PLEC suit or watching market competitors stockpile their own portfolio. Second, the IP program moves out of the reactionary “protect and file on anything that moves” mode into a more proactive mode. In this proactive mode, a more thoughtful strategy is implemented to build an IP portfolio to protect advantages and file for IP protection that has offensive value. In the third phase, the IP program enters a mode where it can show a “return on innovation,” where IP is actually leveraged to positively impact deals, to generate revenue (i.e., increase shareholder value), and to deter third-party challenges (i.e., decrease shareholder worry).


IP Creates Value Through a Variety of Mechanisms



Despite the foregoing, all IP departments are eventually going to be asked to make the “cost center to profit center” transition as the knowledge-based marketplace becomes more competitive and C-level executives become pressured to emulate their peers at companies who have successfully derived economic value from their IP portfolios. This transition typically involves moving beyond the paradigm of building a portfolio for defensive/freedom-to-operate purposes to successfully employing a variety of mechanisms to realize value from a company’s IP. As Rick Thoman, then the President and CEO of Xerox Corporation said: “The world’s most successful companies are aggressively promoting, protecting, and marketing their own intellectual property.[T]he stakes are enormous—billions of dollars—for those companies that successfully mine and maximize the value of their patented ideas.”¹⁸

Internal IP Focus Can Be a Catalyst for Change

Given the current IP market and macroeconomic realities, GCs have no choice but to pay increased attention to IP. A good start is often hiring an experienced IP counsel to build the company’s IP program. Once the IP counsel is

hired, that individual should be given the proper support, resources, and access to upper-level management to be successful. That is, it would be prudent to make sure those job descriptions that read “will be responsible for *managing* company’s IP portfolio” are not, in actuality, jobs whose descriptions should read: “responsible for *collecting* company’s IP.” In-house IP counsel needs to be allowed to extract value from a company’s IP assets, not simply engage in filing for IP protection to collect such assets. They will also need time to be a catalyst to change the corporate DNA of your organization such that IP is valued and always on the forefront of all corporate actions and decisions. The change to a company which values IP will be gradual, but necessary in today’s competitive economy. Shareholders will demand no less. 

Have a comment on this article? Email editorinchief@acc.com.

NOTES

1. *Industrial Metamorphosis: Factory Jobs Are Becoming Scarce. It's Nothing To Worry About*, *The Economist* 69 (Sept. 29, 2005).
2. CHI Research, Inc., *Small Serial Innovators: The Small Firm Contribution to Technical Change* (Feb. 27, 2003) at 3.
3. Alan Greenspan, *Remarks at the 2005 Financial Markets Conference of the Federal Reserve Bank of Atlanta*, Sea Island, Georgia (April 4, 2003).
4. James W. Ely, Jr., *The Guardian of Every Other Right: A Constitutional History of Property Rights* 6 (1st ed., Oxford University Press, 1992).
5. Kevin G. Rivette and David Kline, *Rembrandts in the Attic: Unlocking the Hidden Value of Patents* (Harvard Business School Press 1999).
6. A. Tracy Gomes and Thomas George, “Patent Value Continues to Soar in 2005,” *IAM Magazine* 34-35 (Feb.-March 2006).
7. Am. Intellectual Prop. Law Assoc., *Report of the Economic Survey* (Sept. 2005) at 22.
8. Marius Meland, *Patent, Trademark Litigation Rose in 2006: Survey*, *IPLAW360* (Dec. 29, 2006).
9. See Anne Hurdell, *Bristol-Myers Head Fired Amid Plavix Debacle*, *IPLAW360* (Sept. 12, 2006).
10. Meland, *supra* note 7.
11. Marius Meland, *IP Litigation Yielded \$3.4B In 2006: Survey*, *IPLAW360* (Dec. 29, 2006).
12. 126 S. Ct. 1837 (2006).
13. See generally, Victoria Slind-Flor, “The Waiting Game,” *IAM Magazine* (Oct.-Nov. 2006) at 23-28.
14. See *id.* at 24.
15. Accenture Ltd., *Intangible Assets and Future Value: A Survey of 120 Senior Executives* (2003).
16. John Bringardner, “TV Ad Lures Inventors”, *IP Law & Business* 10 (Jan. 2007).
17. “A Survey of Patents and Technology: A Market for Ideas,” *The Economist* 1 (Oct. 22, 2005).
18. Rivette, *supra* note 5 at back cover.