

IP RULES

By Paul Goldstein

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Intellectual property.

THE TERM ITSELF SUGGESTS THE NATURE OF THE CHALLENGE. HOW CAN A PRODUCT OF THE MIND—AN INVENTION, a song, a brand, a business secret—become the subject of precise, bounded property rights? No idea is entirely original; every innovative business borrows, sometimes extensively, from its competitors and others. How can lawmakers draw a line that crisply states this is yours and that is mine? • Judges, legislators, and lawyers commonly speak of “balance” in intellectual property law, and this is certainly a desirable goal. But, balance—at least if it implies stability—is an illusion. No law that seeks to encourage both the production and use of information can possibly achieve more than a momentary equilibrium. Because support for investment incentives inevitably undermines support for free access—this is the paradox of property rights in information—all balances are temporary; the slightest current of public or political sentiment can shift the balance, by extending property rights one day and restricting them the next. • Companies spend millions, sometimes billions, of dollars researching and developing new products, knowing that they will have to write off the investment if a court should hold that the invention trespasses on another company’s patent. Book publishers, film studios, and record labels invest in creating and marketing copyrighted works that inevitably build on themes, incidents, and other elements taken from earlier works. Which of these elements is in the public domain, free for the taking, and which is not? Many of the best-known and most valuable brand names—Burger King, McDonald’s—are little more than descriptive words and common names. How can a company appropriate such names to its own exclusive use? When a departing employee takes a company’s trade secrets and know-how with him, what part of this information belongs to the company and what part, derived from his own skill and training, belongs to him? Marking off the boundaries of intellectual assets is like drawing lines in water. • Elusive as intellectual property boundaries are, the business value they secure is enormous. Commentators cite breathtaking figures—“76 percent of the Fortune 100’s total market capitalization is represented by intangible assets, such as patents, copyrights, and trademarks” or “an estimated 80 percent of the value of the Standard & Poor’s 500 is made up of intangible assets of all kinds”—to indicate the scale of intellectual assets in the modern economy. By one recent estimate, the nation’s copyright

and patent industries alone contributed almost 20 percent of private industry’s share of the U.S. gross domestic product and were responsible for close to 40 percent of all private industry growth.

Impressive as these numbers are, the profits generated by these assets can be even more striking. In 1986 media entrepreneur Ted Turner paid \$1.6 billion for the MGM film studio, quickly selling off the studio’s tangible assets—production and distribution operations, film laboratory, and real estate—in a deal that left him with \$1.2 billion invested in the copyrights to MGM’s film library, including such classics as *Casablanca*, *Gone with the Wind*, and *The Wizard of Oz*. In 2004, when MGM was again on the block, analysts estimated that its James Bond franchise alone was worth \$1 billion, encompassing not only DVD revenues from the 20 Bond films already in the MGM library but also the revenues to be earned from new releases, for which they estimated profits at no less than \$125 million for each film, not counting product placements. In 1999, Salton Inc. paid George Foreman and his partners \$137.5 million to use the former heavyweight champion’s name and image to market the Lean Mean Grilling Machine and other kitchen

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IN FOCUS

Remembering a Cross-Country Journey to Law School

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then I drive up and hit one of the urns at the front of the hotel.”

Day 7: *There was no time to waste. Made the exit ramp on two wheels, stopped by the Church of Elvis (Get your drive-through weddings here!) and made a triumphant victory lap around the parking lot and sidewalks at Caesars Palace. . . . We put on the parking brake, gave Sheryl Crow a kiss, Frank Sinatra a high five, his “escort” a tip, and Siegfried (or was that Roy?) a fat lip. It was time to gamble.*

After Vegas, it was Stanford or bust. But first, the gang decided to take the truck for a spin up Highway 1.

“We should not have been driving a truck up Highway 1. You had to know not to ride the brakes—we did not let Mel drive—but it was amazing,” recalls Lisa.

They ended the journey with a celebratory ride up Palm Drive eight days after setting out for Stanford Law School; they were a bit weary but thankful for the adventure.

Day 8: *Finally the arrival—After narrowly escaping the gypsy moth inspector at the state line, we nomads toasted our new state with a rousing rendition of “Hotel California.” A few near death experiences later, Victory!!! Date: August 31. Time: 6:50 p.m. Place: Outside the Office of Admissions at Stanford Law School. We weary wanderers see ourselves celebrated on our fearless leader’s bulletin board, and we smile, and laugh, and completely love it. No word yet on whether we’ve recovered our sanity. Over and out, Lisa, Brian, Mel, & Mike.*

Ten-four, good buddies! SL

POINT OF VIEW

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products, a payday for which the boxer did not have to land, or suffer, a single blow.

Intellectual property, this most profitable of all business assets, is also the least stable. One reason is that—far more than any other business asset—patents, copyrights, trademarks, and trade secrets are constructed of legal rules. Equally important—and far more than other legal doctrines—the rules that define intellectual property are the subject of constant change. Intellectual property’s boundary lines are inherently uncertain and can shift from one judicial decision to the next. When in 2000 a federal court declared the patent on Prozac invalid, the value of Eli Lilly shares plummeted more than 30 percent. In 2002 a judge ruled that rival suppliers had not infringed Gemstar’s patents on an on-screen program guide, and the company’s stock dropped 39 percent in value. The stock of VISX, a leading vision-correction laser company, fell 41 percent after a similar ruling. Smart business practice

requires an understanding of the forces that produce uncertainty and change in intellectual property law and, if not always the insight to predict their outcomes then, at least, the ability to plan for them.

Why are intellectual property rules so much more mercurial than other property rules? (If real property rules were similarly unstable, the Empire State Building, fully rented one day, would be open to squatters the next.) The answer stems from the fact that intellectual assets—inventions, entertainment, brand names, collections of data, trade secrets—are information and, as such, are inexhaustible. Unlike the Empire State Building, information can be used by unlimited numbers of people without impairing the ability of still other unlimited numbers to use it too. Lawmakers recognize that without property rights to protect innovations from freeloading competitors, businesses will hesitate to invest in innovation—which is why they enact intellectual property laws. But lawmakers also understand that to impose intellectual property rights necessarily means turning away prospective users who are unable or unwilling to pay the price for access to the protected information, even though their use of the information will deprive no one else of it—which is why they impose limitations on intellectual property rights that would be unimaginable in the case of other forms of property rights.

Intellectual assets have long lives: Patents last for 20 years from the date of application, copyrights can last 95 years or longer, and trademarks and trade secrets are potentially perpetual, and there is no more important intellectual property management objective than to anticipate an intellectual asset’s legal futures over its lifetime. If intellectual property lawyers cannot precisely anticipate the specific legal changes that tip the judicial scales in favor of patent owners over the long course of a lawsuit, history shows that the forces producing change in intellectual property law themselves wax and wane and can offer a rough index for prediction.

The risks and rewards of intellectual assets are no less manageable than the risks and rewards of other business activities. However, the management tools differ, and the experience of the most successful intellectual asset companies reveals not only a healthy respect for the margins and mishaps that these assets can produce but also the need to merge legal and business perspectives in managing these assets. The central point is that every business decision involving intellectual assets is ultimately a legal decision and every legal decision is at bottom a business decision. If intellectual property is economically too important to be left to lawyers, it is also too legally charged to be left to managers. **SL**

This piece is an abridgment of the introduction to Goldstein’s soon-to-be-released book, Intellectual Property: The Tough New Realities That Could Make or Break Your Business, published by Penguin Portfolio.