

How to decide when it's time for the lawyers

*A lawyer's involvement in any business transaction is justified only to the extent the transaction is worth more as a result of his or her participation. But how do companies decide when this is actually the case? By **Peter Gardner***

In the 21st century worldwide transition from an industrial to a knowledge-based economy, ideas and innovation rather than tangible assets will drive economic growth and enterprise value. In this knowledge economy, your company's intellectual assets and intellectual capital - knowledge, experience and expertise - will increasingly determine your competitive position, and intellectual asset management (IAM) will become an absolutely necessary core competency for success.

Business lawyers can assist you to develop and implement IAM strategies, but you should ensure that your company makes the most effective use of legal expertise. One important way to obtain maximum value from legal services, for example, is to make sure the lawyer enables you to understand the thinking that underlies his or her advice so you can use that thinking in your future decisions - especially those relating to strategic issues.

As you manage your company's intellectual assets, the role and value of a lawyer will vary according to the size of your business and where your business is in its lifecycle, whether at the start-up phase, as you prepare to register stock issues, should you acquire or merge with other companies, engage in joint ventures or technology cross-licence arrangements, or generally utilise and seek to protect intellectual property rights. Although certain work will require legal expertise, your company itself can perform much of its own work, especially administrative and preliminary research work. Indeed, managing your company's intellectual assets in-house generally permits greater harmony between your IAM efforts and your business strategies. For this reason, you and your attorney should continually evaluate together what work can or should be done by

each of you to make the most effective use of your respective resources.

Business transactions range from work-intensive, time-consuming filling out of forms and documents to complex transactions that require considerable legal skill. However, it can be challenging along this continuum to determine which transactions require an attorney's assistance. The distinction may rest on the extent to which legal discretion must be exercised in selecting or preparing documents that create, affect, alter or define legal rights or legally enforceable obligations; on a transaction's financial scope, complexity and consequences; on whether innovative work demands particular legal expertise; and generally on whether use of legal counsel is cost effective in light of alternative in-house availability of resources and expertise. In considering use of in-house resources, it will be important to determine whether in-house personnel have the knowledge, skills and judgement required to assess risk and advise you accordingly, and whether doing this sort of work in-house may produce a sufficiently creative result if needed. In addition, in-house personnel involved in intellectual asset management should receive ongoing training to be able to identify difficult situations and to handle close calls.

Lawyers' involvement in any business transaction is justified only when they make the relevant transaction worth more as a result of their participation. Your lawyer and you should recognise, for example, when a particular negotiating tack will end up costing you more than any advantage you might gain. Similarly, it may be enough for your attorney to render no more than a summary answer to your legal enquiry that will be sufficient to

enable you to determine whether to authorise further legal research.

Management of knowledge assets

Innovation and the knowledge assets your business produces – intellectual property and intellectual capital – are central to your business success. Your business must, therefore, manage its knowledge assets with a clearly defined and well-articulated vision and strategy to maximise competitive advantage and minimise cost and risk in a way that avoids wasting resources on assets for which protection will be unavailable or ineffective. A systematic and adequately funded IAM programme should be integral to all the processes that make up the business and should have clear objectives focused primarily on those elements essential to implementing strategy.

An effective management strategy should anticipate long-term issues such as development of new product lines; expansion into new markets; evaluation of your competitors' plans and capabilities; recognition of significant market or technology shifts; the enabling technologies you must build, license, or acquire; and the partnerships you will need to forge in the future. The strategy should include a legal compliance programme to avoid infringement of others' intellectual property rights and to protect your own property from infringement.

An attorney can create value in assisting in the development of an effective IAM strategy. An attorney's continual exposure to new industry-relevant legal issues enables him or her to provide you with current legal analysis and proposed courses of action; to assist you to develop and execute a licence, joint venture, nondisclosure or strategic alliance agreement; and to respond quickly to enjoin imminent or just-discovered infringements or to commence an action in an appropriate jurisdiction. To do this effectively, however, legal counsel must become sufficiently familiar with your organisation to understand how its personnel works and who decides which issues. Further, counsel should be consulted early on to assist those who create a particular asset to determine the most promising protection options.

In a successful working attorney-client relationship, punctuality and clear communication, a clearly defined decision-making process, as well as routine exchanges of information concerning who is to perform which task, are essential. If necessary, it should be clear in advance who should speak for the company in a matter that is, or may become, public.

Although a solid IAM strategy is crucial to improving your company's competitive position and financial return, such a strategy should not be exclusively a legal function. Your company should do as much as possible itself and should use legal counsel to create value for your business enterprise.

Beyond assisting your company in its IAM programme, lawyers can provide valuable counsel in other important and sometimes subtle business areas, including lending their reputations to your enterprise, drafting agreements skilfully, and developing preventive law procedures.

Reputation

It can be difficult to protect intellectual assets, methods and production processes in a legally effective manner, and additional complications may arise should you enter into strategic alliances, such as joint ventures, research and development partnerships, corporate venture capital, spin-offs, startups, licensing deals and out-sourcing arrangements, in which intellectual property rights play a central role. Accordingly, capital providers scrutinise a company's intellectual assets and award higher valuations to companies that own valuable, well-protected technology. Indeed, a strong intellectual property portfolio may now actually be a precondition to funding, as investors want to be certain your company - and their equity - will not be threatened with infringement litigation or by inadequately protected intellectual property rights.

Thus, your business will likely be asked to provide information about itself to financial institutions, suppliers, customers, subcontractors and, where technology licensing is involved, perhaps to universities. Yet because your business may not have a sufficiently strong reputation in its own right, it may be unable to provide such information credibly, which can have measurable economic effects. A high-tech startup business, for example, which is undervalued by investors will incur an excessive cost of capital which will limit business investment and growth.

Should your company's reputation be insufficient, an independent lawyer's reputation may be accepted instead. In such circumstances, outside counsel's reputation for diligence, honesty, integrity and independence can be even more valuable than his or her skill as an advocate, as such a reputation will strengthen your company's credibility and thereby reduce transaction costs.

Be careful not to confuse an attorney's unwillingness to press every possible advantage with insufficient commitment to

IAM tasks that your company should consider doing in-house

- Strategic planning and identification of market opportunities
- Development of a vision statement to describe the company as it wishes to become in the future and steps to allow progress toward the vision to be measured
- Describe IP management system the firm ultimately wishes to create, including decision processes, supporting work processes, and databases
- Identify IP consistent with business plan
- Conduct IP valuation
- Decide whether to pursue IP protection
- Implement clear screening criteria for determining what patents should be included in the portfolio
- Conduct an annual preliminary IP review/audit
- Identify and prioritise most valuable trademarks
- Document IP and routine administrative maintenance work
- Develop docketing system to alert company of filing and renewal deadlines
- Maintain lab books and other records to show that any patent infringement was unwitting and stemmed from simultaneous invention rather than copying another's proprietary technology
- Compile and analyse data on response time, rejections and foreign market trends
- Collect and analyse competitive intelligence
- Thoroughly map patent landscape at early stage in R&D process
- Conduct preliminary searches, screening and initial infringement determinations
- Prepare patent candidate information file
- File copyright registrations where applicable
- Conduct low-risk transactional matter within management experience
- Prepare standard confidentiality/nondisclosure agreement
- Review business (as compared to legal) sections of agreement
- In compliance context, maintain compliance documentation
- Determine when matters should be reported to insurers
- Inform news media and others of improper trademark use.

IAM tasks best left to experienced legal counsel

- Legally substantive work that may affect marketing strategies, budget allocation, corporate risk and competition
- Advanced annual IP review and risk assessment in obtaining/foregoing protection
- Independent opinion of counsel, especially where significant expenditures are contemplated, to limit risk of infringement and to support defence of good faith
- Legal matters that directly involve other parties
- Complex contracts with customers
- Nondisclosure and confidentiality agreements and, in the employment context, trade secrets, confidentiality issues, invention ownership, non-compete agreements and procedures to insure no improper disclosure of information obtained from other firms or customers
- Licensing agreements
- Review of trademark licences to ensure adequate control
- Actual suits, or threats of suits
- Choosing to proceed with litigation based on cost and chances of success
- Evaluation of exposure to regulatory challenge
- Assessment of shareholder disputes
- Negotiating settlements
- Review and facilitation of copyright and trademark filing procedures
- Advanced prior art and clearance searches
- Determination of whether copyright use is permissible
- In the US, issues involving Digital Millennium Copyright Act of 1998 (DMCA)
- Filing in foreign markets
- Patent prosecution, including claims drafting, assessment of scope of claims, and claim interpretation
- Determination of availability of desired trademark
- Trademark issues of dilution, tarnishment, infringement, abandonment.

your case. It may well be that the attorney's reputation for being deliberate and restrained may serve your interests most successfully.

Contract drafting

Lawyers draft contracts to stabilise expectations and reduce transaction costs of later misunderstandings and conflicts. Agreements should allocate risk effectively; anticipate and define adverse contingencies; specify security arrangements; and stipulate how a breach would be remedied or who would decide the use of an intellectual asset should an unspecified use arise.

It is virtually impossible in a business transaction to anticipate all contingencies that may crop up. Even were it possible to do so, writing a contract that specifies all eventualities, rights, and responsibilities would be prohibitively expensive and it may be hard to know for years whether particular protections, warranties, or representations were worth the added legal expense. Making precisely the legal judgement, however, that the cost of obtaining a contractual promise is greater than the value it adds to your interest and, therefore, that it would be better to conclude the transaction without such a promise, is itself value created by a lawyer's good judgement.

Preventive law

Your lawyer should be sufficiently familiar with your business to identify potential legal problems in the short term and to forecast legal and legislative trends that may affect your business in the future, and to develop and recommend appropriate action. Such a preventive law approach is especially useful when, for example, operations carry greater risks than anticipated; corporate or managerial interests come into conflict; or issues arise in the context of scope of privilege protections or document retention requirements.

An effective preventive lawyering programme requires that the attorney possess detailed knowledge of your business and be apprised of your plans so as to point out potential legal problems and solutions at an early stage. As a significant component of preventive law is the education of company personnel involved in compliance, counsel should present seminars on relevant legal developments, especially on intellectual property issues. Such seminars will enhance your company's understanding of proper intellectual asset management and will have the added benefit of enabling your lawyer to develop a fuller understanding of your business goals and concerns.

Keep it in-house as much as possible

In producing legal services that add value to

your enterprise, your company's lawyers should enable you to work more productively and to make better decisions on your own after they have completed their work. Although a lawyer's role will evolve according to your needs, he or she should at all times be a contributing team member dedicated to creative problem solving with an appreciation of the financial consequences of a particular legal course. The attorney should share your view that your innovations are money-making assets.

To be such a team member requires the lawyer to develop a thorough knowledge of your business and, in your company's own interest, to be part of a particular project from the outset to provide expertise, judgement, perspective and analytical capacities at advantageous moments.

In the knowledge economy, your knowledge assets will assume a position of supreme importance in your ability to compete successfully, and your business will have to manage its knowledge assets with a comprehensive strategy to maximise competitive advantage and minimise cost and risk. An attorney should assist in the development of an effective intellectual asset management strategy, but the strategy itself should not be an exclusively legal function. You and your attorney should work together to evaluate what work can or should be done by each of you. Your company should do as much as reasonably possible in-house and should utilise legal expertise only to the extent an attorney's participation will produce value for your company. ■

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