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Introduction—Creative Capital: Intellectual Property Creation and Venture Capital

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INTRODUCTION

CREATIVE CAPITAL: INTELLECTUAL PROPERTY
CREATION AND VENTURE CAPITAL

Michael S. Mireles[†]

This Introduction serves not only as an introduction to the Symposium, “Creative Capital: Intellectual Property Creation and Venture Capital,” held on March 25, 2011, in Winston-Salem, North Carolina, but also as an introduction to the recently renamed and refocused *Wake Forest Journal of Business and Intellectual Property Law*. Previously known as the *Wake Forest Intellectual Property Law Journal*, the new Journal has changed its focus from strictly intellectual property law topics to intellectual property law and business-related issues that may involve intellectual property law. Broadly speaking, the Journal will publish articles related to subjects ranging from the burgeoning field of entrepreneurship,¹ business formation, technology transfer, bankruptcy, ethics, intellectual property, and venture capital. The new Journal also aims to provide short and practitioner-focused essays and articles.

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¹ For a bibliography of entrepreneurship-related scholarship, see *Law Scholarship Introduction*, ENTREPRENEURSHIP.ORG, <http://www.entrepreneurship.org/en/Entrepreneurship-Law/Topic-Introductions/Law-Scholarship-Introduction.aspx> (last visited July 12, 2011).

The first Symposium of the *Wake Forest Journal of Business and Intellectual Property Law* was a well-attended and ambitious one. In keeping with the new business and intellectual property concentration, the Symposium was a partnership between the Wake Forest University School of Law, the BB&T Center for the Study of Capitalism, and the Wake Forest University Schools of Business. It included introductions from the Dean of the Law School, Blake D. Morant, and Dean of the Business School, Steve Reinemund. Also, the Symposium was timed to take place the day before the popular Wake Forest University Schools of Business' Elevator Competition.² This competition draws a large number of venture capitalists to judge the business plans of teams of MBA students from many universities. The keynote speaker for this year's opening night dinner was Colin Gillespie, a Wake Forest University Schools of Business graduate and Head of Global Online Marketing for LEGO. The competition awards over \$40,000 in prizes for teams to commercialize their ideas.

The Symposium examined the role of venture capital and intellectual property law from many different perspectives through two panels and a keynote speech by Bob Young, CEO and founder of Lulu.com and a co-founder of Red Hat. The first panel, "Intellectual Property: From Cradle to Grave," featured five speakers and was moderated by Professor Simone Rose, Wake Forest University School of Law.³ Robert Rehm, a partner at Smith Anderson, LLP, discussed intellectual property ownership issues from the perspective of a start-up company. The second speaker, Daniel Egger, the CEO of Open Source Risk Management, reviewed issues concerning the use of open source software for start-up and other businesses. The next speaker, Daniel Stell, the Associate Director of the Wake Forest Office of Technology Asset Management, presented several problems confronting university technology managers who evaluate inventions created by university researchers. Mike Mireles, an Associate Professor at the University of the Pacific, McGeorge School of Law, discussed the implications of the *Stanford v. Roche Molecular Sys.*,

² For information and video concerning the Elevator Competition, see *Wake Forest Elevator Competition*, <http://www.elevatorcompetitionlive.com> (last visited July 12, 2011).

³ For a detailed summary of the panel discussion, see Alayna R. Ness, *From Cradle to Grave: Panelists Discuss a Spectrum of Intellectual Property Issues*, WAKE FOREST J. OF BUS. & INTELL. PROP. L. BLOG (May 1, 2011), <http://ipjournal.law.wfu.edu/2011/05/from-cradle-to-grave-panelists-discuss-a-spectrum-of-intellectual-property-issues/>. For the audio recording of the panel, see *Symposia*, JOURNAL OF BUSINESS AND INTELLECTUAL PROPERTY LAW, <http://ipjournal.law.wfu.edu/symposia/#media> (last visited July 12, 2011).

*Inc.*⁴ case pending before the United States Supreme Court, which concerns ownership of inventions created from federally-funded research. Finally, Dr. Sibilla Nagel, a partner with Rittershaus in Munich, Germany,⁵ provided a fascinating overview of some issues related to companies with intellectual property that are subject to the jurisdiction of German bankruptcy courts, among other topics.

The next panel, “Financing the IP-based Start-up,” was moderated by Kim Westmoreland, co-founder of KeraNetics, LLC and founder of six start-ups in the healthcare field, and Dr. Stan Mandel, professor at the Wake Forest University Schools of Business and Director of the Angell Center for Entrepreneurship.⁶ The panel included Merrill Mason, a partner at Smith Anderson, LLP; Dr. Sharon Presnell, the Vice President for Regenerative Medicine and Biology for Tengion, a biotechnology company; Therese Maynard, Professor of Law, Leo J. O’Brien Fellow and Co-Director of the Business Law Practicum at Loyola Law School, Los Angeles; and Martin Sinozich, President of Venn Capital. The discussion ranged from the suitability and cost of patents versus trade secrets to the availability of angel financing to the ethical issues related to attorneys accepting stock in their client’s companies in exchange for legal services.

The keynote speaker, Bob Young, discussed a range of issues, and his comments, *Open Versus Proprietary as Business Strategy*, are transcribed and part of this Symposium issue. Some of Mr. Young’s interesting insights included: his views concerning intellectual property law as a tool depending on a company’s perspective; the financing of start-ups by “love money”—money “loaned” by relatives who never expect it to be repaid; the ability of lawyers to get in the way of business—with “business” defined as satisfying the needs of customers; and the one issue Mr. Young mentioned keeps him up at

⁴ Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 583 F.3d 832 (Fed. Cir. 2009), *aff’d* 131 S. Ct. 2188 (2011). For the United States Supreme Court’s opinion, see <http://www.supremecourt.gov/opinions/10pdf/09-1159.pdf> (last visited July 12, 2011).

⁵ Dr. Nagel is currently an attorney with Eder, Zitzewitz and Koll in Munich, Germany.

⁶ For a detailed summary of the panel’s discussion, see Tiffany R. Johnson, *Celebrating the IP Start-Up: JBIPL’s Symposium Tackles the Challenges of a Growing Industry in its Second Panel*, WAKE FOREST J. BUS. & INTELL. PROP. L. BLOG (April 2, 2011), <http://ipjournal.law.wfu.edu/2011/04/celebrating-the-ip-start-up-jbipl%E2%80%99s-symposium-tackles-the-challenges-of-a-growing-industry-in-its-second-panel/>. For the audio recording of the panel, see *Symposia*, WAKE FOREST J. BUS. & INTELL. PROP. L., <http://ipjournal.law.wfu.edu/symposia/#media> (last visited July 12, 2011).

night—the trials of being an owner of a Canadian football team. The most notable aspect of Mr. Young’s comments, which may be hard to discern from the transcript, was his incredible energy. It is difficult to imagine Mr. Young working in a cubicle for some large corporation and, as he noted, if Ritalin® existed when he was a child, he would have received a prescription for it. It was easy to understand why Mr. Young is successful in many start-up ventures after watching and listening to him speak.

As part of this Symposium issue, we also have two thought-provoking and useful essays: Dr. Sharon Presnell’s “*Advancing Technology in the Context of the Competitive Landscape: An Industrial Technologist’s Perspective*” and Professor Therese Maynard’s “*Ethics for Business Lawyers Representing Start-up Companies*.” In the first essay, Dr. Presnell takes on the exceedingly difficult and complex questions of how to track and manage new inventions from early-stage research, and when to patent or implement some other intellectual property strategy for that early-stage research in light of the specific product or service market. She argues that preparation and planning are key to commercializing new inventions and provides case studies to illustrate her points. She states that three questions should be asked concerning potential new inventions: first, “is it real?”; second, “is it novel?”; and third, “does the technology have the potential to impact future strategy (beyond existing products and platforms)?”⁷ She emphasizes that answering these questions requires a mix of expertise, whether technical, business, or legal.

Dr. Presnell argues that ongoing research should be carefully observed to ascertain whether there are any new potential patentable or marketable inventions arising from that research, and to analyze those inventions against what is already on the market or published. This observation must be deliberate and careful to avoid missing any new inventions that could be commercialized and to ensure that there is a clear path to commercialization considering the prior art and market need. As part of this process, she proposes the expenditure of capital to reduce the invention to practice early at the concept stage to facilitate the initial drafting of claims that actually cover the (eventually) commercialized product or method if a patent application is filed. Emphasized through a case study, she also warns that early patenting can result in claims that may not cover the commercial device and in a loss of patent term. She also states that an intellectual property strategy should include an evaluation that considers whether

⁷ Sharon Presnell, *Advancing Technology in the Context of the Competitive Landscape: An Industrial Technologist’s Perspective*, 11 WAKE FOREST J. BUS. & INTELL. PROP. L. 380, 389 (2011).

patent protection or trade secret (or both) is best suited to protect the invention

In the second essay, Professor Maynard addresses the ethical issues surrounding an attorney's acceptance of stock in a start-up, high-technology corporation as payment for legal services. The conflict of interest appears clear: the interests of the lawyer/stock-owner may not always be aligned with the interests of the corporation and, thus, the lawyer's advice may be skewed to protect his or her own best interests and not the client's best interests because the lawyer is biased. However, as Professor Maynard notes, there is general acceptance of this practice as long as certain precautions are taken to protect the corporation's interests, such as compliance with the rules set forth in the ABA Model Rules and comments. In her essay, Professor Maynard analyzes the applicable ABA Model Rules and Comments, and points out issues in complying with the rules. Professor Maynard also analyzes the asserted advantages and disadvantages to continuing this practice. Some of the advantages include the provision of adequate legal representation for clients that otherwise could not afford such advice, advantageous business networking through the attorney for the client, an incentive for attorneys to work efficiently for their clients, and increased loyalty between the client and attorney. Disadvantages may include the attorney taking advantage of the client's trust by overreaching and advising the client in a way that may not be in the client's best interests, and a financial risk to the attorney. Professor Maynard concludes, in light of the recent financial scandals, that the issue should be viewed through the lens of the lawyer as the "conscience of the boardroom," and a lawyer's independent judgment should be carefully guarded. She astutely asks the reader "What do you think?"⁸

Finally, thank you to all of the hosts, participants, contributors and presenters in the 2011 Symposium for the *Wake Forest Journal of Business and Intellectual Property Law*.

⁸ Therese Maynard, *Ethics for Business Lawyers Representing Start-Up Companies*, 11 WAKE FOREST J. BUS. & INTELL. PROP. L. 401, 423-24 (2011).