Onex case

1. Not every business has the capacity or resources to defend and then appeal lawsuits like Onex Communications Corp. What is the effect on start-ups in Massachusetts of the tax commissioner’s narrow reading of tax breaks?

2. This case gives you a detailed look at the supply chain of goods and services; describe how this information age strategy does not fit into the statutory construct for defining what is manufacturing, a meaning devised in a different, earlier era.

3. IBM was responsible for manufacturing the chip-sets for Onex, which means that IBM is probably doing this for other such companies and even making its own chips (because it clearly has a chip-ready manufacturing facility). How do you think Onex can control blueprints and other sensitive business information that are in the IBM facility?

[Answer 1]
A narrow construction of what is manufacturing, entitled to tax relief, and excluding all other types of production work negatively impacts start-ups to a greater degree than other, older and established businesses: it freezes the status quo, punishes new ways of doing business, and fails to recognize the realities of how manufacturing takes place in a global economy. These effects are even more pronounced for thinly financed start-ups that will not have extra resources to devote to litigation.

[Answer 2]
This statute that provides for tax breaks to manufacturing businesses envisioned a traditional manufacturing workplace for physical goods – the raw materials were shipped in by train or truck, then off-loaded and re-worked into finished goods that were thereafter shipped out by train or truck to retailers. There are now many more “pieces” to this supply chain than before, and today, many of these related to intangible inputs (such as software code, etc.) that are not the traditional raw materials of physical
manufactured products, and therefore information age businesses will not reap the same tax breaks without an updated consideration of what constitutes manufacturing.

[Answer 3]
This gets students thinking ahead and anticipating the issues that come up later in the text and course – copyrights, trade secrets, patents, trademarks, plus security of data including blueprints and other sensitive business information, all issues that are challenges to manage. This is a classic example of how you have to share information with partners, vendors, and suppliers, and at the same time be in control of it. This question also anticipates the contracts chapter and how important it is to have a nondisclosure clause clearly identifying the subject matter of secrecy, the means necessary to maintain secrecy, and so forth.
Montgomery case

1. Courts are not well-suited to resolving claims of this sort: what do you recommend for resolution of the parties’ claims?

2. If you could rewrite the parties’ Contribution Agreement, what would it provide?

3. Montgomery had the technical know-how. What was his motivation for working with Trepp? Why did this end with acrimony?

[Answer 1]
This is most likely a case involving a longstanding professional affiliation or personal friendship gone bad – with recriminations from both sides. Each needed the other for this business – one had the money, the other had the know-how and the technology. The courts cannot effectively sort out the claims without a tremendous amount of costly and time-consuming discovery, and even if there a way to reasonably resolve the issues, most importantly, the technology will likely be obsolete by that time and thus no longer have any commercial value. These claims should be resolved ideally by mediation, or perhaps by arbitration.

[Answer 2]
Contribution agreements should be clear as to what technology is being contributed: who has title, and should the contribution be less than outright ownership, then the agreement should describe what rights are being contributed, what are the terms (license, sale, etc.), and what rights or technology or know-how is excluded from the agreement. In this particular agreement, it needed clarity on all of these points.

[Answer 3]
See also the response to 1, above. This is a typical scenario and this is why companies, too, partner to achieve objectives that they could not achieve alone. Manager need to recognize what the business has, what it needs, and how to get what it needs – either through making it or entering into an agreement with another to buy it.
Facebook case

1. Who do you think should be known as one who came up with the original idea for social networking? Which is more important: the idea, or the execution of the idea?

2. Given that the judge ordered a $65 million cash-stock award to the ConnectU founder, and ConnectUs legal bill is reportedly $13 million. The ConnectU founders are in arbitration with the law firm now over the bill. Recommend an alternative verdict and award in this case.

3. Can you identify strategies to best protect against getting beaten to market by a competitor?

[Answer 1]
Take a vote – the answer does not matter as much as the process and discussion at arriving at the answer. Who contributed what? Does length of time in the start-up matter? Is the initial idea person the most important? In the United States at least, the execution of the idea has always been given preeminence over the idea itself, so the Facebook case is not unusual in this respect.

[Answer 2]
This is a really problematic verdict, most especially because there is no way of knowing what Facebook is worth (see chapter 3 on this point), since it is a privately held company right now (though there is an actively secondary market for Facebook employee shares). Second, to the extent the share block is large enough, the ConnectU plaintiffs may be one of the larger shareholders of Facebook, and this is clearly not a workable situation. They probably want to sell these shares as soon as any restrictions on these shares expire. The other problem with this type of award too, is that Facebook shares are not liquid, as there is no open market for buying and selling these shares. This was a clear win for Facebook as to the direct out-of-pocket cost of this litigation, but it is a negative as to shareholder composition, and ConnectU should have demanded a set dollar-award payout.

[Answer 3]
So many inventors and idea people have been beaten to market before; so many great ideas have been appropriated or misappropriated by others. This question anticipates the IP chapters as well; it is imperative to have a nondisclosure clause in every agreement and require every worker to sign an agreement. Finally, consider granting each member shares in the start-up to incent them to stay with the start-up rather than becoming a competitor.
**Iconix case**

1. There was commentary after this case that the Proprietary Information and Inventions Assignment Agreements Defendants signed were overly broad. Describe how.

2. From Tokuda's perspective, Iconix was too confining, too slow, too lacking in an entrepreneurial culture, and unable to grasp the relevance of his work. Recommend how you would restructure that work environment and/or his compensation to incentivize and reward such employees in ways that would make them stay even if they were frustrated at times.

3. The concept of fiduciary duty seems out of place in the Information Age. Identify how this duty can be one of the most crucial legal theories in suits against directors and officers.

[Answer 1]
They attempt to capture all inventions, even those created out of work and off work-time, and the company purports to own them and not be required to pay inventors any extra consideration for title to the inventions.

[Answer 2]
It is difficult to keep superstar employees who are not owners of the company; this is a situation in which a spin-off would have been an ideal vehicle (see chapter 3), or perhaps Iconix could have kept Tokuda through an award of stock, or a grant of stock options with a vesting schedule; these are helpful as strategies to better align the interests of the company and key employees.

[Answer 3]
Yes, this theory has vitality and is independent of any employment agreement or contract business partners and so forth. Claims for breach of fiduciary duty are independent of any claims based in contract, so that even if the contract is not breached, the acts may still amount to a breach of fiduciary duty.
Responses to End-of-Chapter Questions

1. The Skype p2p technology uses proprietary software called the Skype protocol. eBay, Inc. owns Skype, and is now trying to sell that company. Yet a key part of the Skype technology, some software source code is owned by the Joltid Corporation. Skype and Joltid are embroiled in litigation over licensing this software. What issues do you perceive are problematic for purchasers of Skype?

2. Stanford researchers began work on a biotech invention and subsequently patented this work. At that time, Stanford had a permissive policy with regard to ownership of inventions, and rights were not automatically assigned to the university as they are currently. It turns out that in this case, Board of Trustees v. Roche Molecular Systems, that Stanford lost rights to this invention. Can you develop any rationale for why universities and other research teams, such as those at Bell Labs, etc., would keep a permissive licensing arrangement with its researchers, even knowing the outcome of this case?

3. Inventor Michael Powell approached Home Depot with an ingenious invention that, when installed on the stores’ radial saws, kept employees’ hands safe from horrible accidents. The company liked it, and Powell as payment $2,000 per unit to be installed in 2,000 stores. The company balked at Powell’s proposal and, instead, secretly dispatched a team to recreate his saw guard. Powell filed suit, and prevailed. Powell v. Home Depot Stores, 2010 U.S. Dist. Lexis 5806 (S.D. Fla. Jan. 26, 2010). The jury found damages in the amount: $15 million for theft of the idea; $3 million in punitive damages; $1 million in interest owed since the theft; $2.8 million in attorneys’ fees. What do you recommend for independent inventors after this case?

4. For apps to be featured on Apple, Inc.’s iPhone, developers must build it with Apple’s software development kit and then go through the app store approval process. Apple rejected an application for the Google Voice iPhone App, and further stated that it would not accept any applications that incorporated Google Voice functionality. Apple reasoned that such app’s duplicate the phone’s core features and functionality. It also rejected Google’s location-based app Google Latitude. If you were developing a collaborative platform, do you think the best model is this proprietary-approved collaborative model, or is an entirely open innovation model better—if your main goal is to maximize innovation? What if your main goal is to make money?

5. Think about an intractable problem that is in the news. Using what you learned from this chapter, describe your approach to solving this, that is, describe how could you generate solutions.
[Answer 1]
This is a great follow-on to the cases in this chapter: ownership of rights, title to technology, and the extent of rights is unclear and this is exacerbated when a sale is contemplated. There are very few buyers for Skype precisely for this reason; in fact the only potential buyers are the owners of the underlying technology – Joltid, or those who can create a strategic partnership with Joltid.

[Answer 2]
The case cite is 583 F.3d 832 (Fed. Cir. 2009) (a complicated fact pattern, and a highly representative case involving ownership claims). There is a lot to discuss here for students – there is a tension between permissive and restrictive licensing arrangements. With a permissive licensing environment, R&D organizations are more likely to attract “superstar inventors” and thus will by necessity engage in a complex rights-sharing arrangement for inventions. Restrictive licensing means that the organization is granted automatic title to all work, and this tends to make such organizations correspondingly less competitive for top talent. Knowing this ahead of time means that the organizations can plan and negotiate accordingly.

[Answer 3]
This is an all-too-common occurrence; note again, the David versus Goliath aspect to the litigants. Independent inventors need sophisticated marketing and sales partners, along with legal representation to coordinate protection of the underlying invention from theft or infringement (through registration of the IP and a contract with protective covenants).

[Answer 4]
This is an area students know a lot about and really want to speak to. The Apple proprietary-approved collaboration model is under some scrutiny now (see the Contracts chapter) and it is a rapidly evolving practice area. If the goal is to maximize innovation, that means that the hardware producers ultimately will cede control to the users, and the app will lose the “personality” and the vision of the producers and it will be a community project so to speak with no real quality controls or common functionality. Innovation will be maximized, yet perversely, the producer loses control of it, and any incentives to upgrade the core product. If the goal is to make money, producers will engage in a scheme similar to Apple’s – maybe with a more restrictive licensing and profit-sharing plan, vetting every product, and tightly controlling the product and hardware environment for its vision of quality, functionality, and user experience. There is a tension between users and producers, especially where the tools for modding are easily obtainable, and controlling the user environment is a balance between these values.

[Answer 5]
This is a neat challenge – identify businesses, industries, market sectors, and so forth that have been especially impacted by the Internet and web, like TV, books, music, newspapers, even performance venues, etc., and ask students to identify what that impact is and how the businesses can better respond. Like music for example – there is
not a demand problem; that industry’s problems are more related to distribution and price. Have students look into the economics and business model the legacy industry players are using and describe the gap between that model, and how these students are interacting with that content today, and what is a better approach (one that is profitable, sustainable, and incents lawful behavior).