

# **ERM for Owners of Intellectual Property (IP)**

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**(Based in part on ERM at University of Minnesota (UMN) at Office of Technology  
Commercialization (OTC): An Examples)**

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**Introduction: ERM and Intellectual Property (IP)**

Enterprise risk management (ERM) is a means for evaluating IP risks and opportunities. IP risk-taking evaluates the law and applies an analytical approach to managing IP applying strategic and tactical processes.

This chapter describes new initiatives and methods which mitigate risks and open opportunities for SMEs, entrepreneurs and inventors: Holistic ERM methodology, new IP laws, venture centers, and access to capital have opened new paths with partnerships and capital to develop and commercialize IP. The ERM process requires a team of trusted experts to guide entrepreneurs and inventors through the maze of obstacles and to continuously commercialize/monetize IP.

Entrepreneurs can manage the risks to commercialize innovation and technology through the formation of a new company, licensing, or other options by efficiently applying capital, time, and expertise. Topics addressed include strategies to avoid mistakes, requirements of financing, utility and actual production, enforcing a patent and cost to maintain IP value.

Intellectual Property is an asset class of significant value. Until IP is monetized somehow, by sale or license or other means it is difficult to determine value. It's intangible; there is no defined market, and valuation requires a risk analysis.

This paper is in large part based on ERM of IP at University of Minnesota. (UMN)

**New Opportunities**

The America Invents Act (AIA) specifically called on the United States Patent Office and practitioners alike to establish a pro bono program to assist financially under-resourced independent inventors and small businesses. The USPTO is working with different regions across the country by educating both IP law associations and non-profits on how these pro bono programs work, and how to successfully implement them in new regions. Minnesota has pro bono pilot program guided by best practices and the benefits of pro bono work.

## **Enforceable only in US**

A U S patent is only enforceable in the US if patented only in the US. A company outside the US can produce that product; however they cannot sell it the US until the patent tolls.

At the 'conversion' stage of the patent process it is possible to get a 'PCT' (Paris-cooperation treaty) that allows for almost global protection for 3 months. After those 3 months it is necessary to pick individual countries and apply for final patents there. So initially there is an international standard via PCT, but after that it is country by country. Patents are only valid in the jurisdiction of the country they were created in. However, if the country is part of the WTO, there are laws in each of these countries stating that they must obtain permission from the intellectual property holder in order to either use the intellectual property or import/export goods using the patented technology. One example of these laws is 35 USC 271, which stops importation of goods that would have infringed on U.S. patents if made in the U.S.

## **Effects of Globalization on IP and Immigration**

The increasingly interconnected global economy has significant effects on intellectual property issues including effects on immigration. Attorneys, consultants and entrepreneurs are confronting novel issues, such as how a foreign inventor can immigrate into the US market. One solution is to begin a startup on a boat off the coast of San Francisco, which is the solution of a company called BlueSeed; BlueSeed's President is Dario Mutabdzija. This is one of the novel methods foreign inventors are utilizing as they try to immigrate into the US market. Entrepreneurs and advisers need to be aware of these issues and options.

## **IP Benefits and Costs of IP Protection for a Business**

- Strong Competitive Advantage: Exclude others
- Freedom to Operate: Ability to make and sell
- Attract Investments: Strong IP is critical to tech start ups
- Cross licensing strategies & negotiation– mitigating risk-approachable license & patent swaps
- By dealing with lurking “patent trolls” themselves entrepreneurs, right or wrong.
- Affordability/cost leading to tough decisions
- Management of the cost of enforcement- Short-tail lawsuits as much as possible.
- Reputational risk control – risk managing the publicity of law suits
- Review of key cases affect patent validity - Myriad Genetics Case: Justices, 9-0, Bar Patenting Human Genes Check list for Risk Managing IP of SMEs

## **Initial IP Check List**

Discuss this list and other similar lists with you IP consultants:

1. Does your enterprise have IP? Inventions, ideas, recipes, formulas, al la “coke a cola”, Trademarks, advertising names, list others\_\_\_\_\_.

2. What are your unique competitive advantages, products, services, and people, in your business? And how are they related to your IP?
3. Do you have non-compete agreements? Covering trade secrets and proprietary property?
4. Do you have agreements as to who owns existing IP or future IP?
5. Are you aware that perusing a patent is likely not worth the time, cost, disclosure and cost to maintain, but looking in to it is part of a risk management process?
6. Did you register with the State, and local governments, trade names, dba? Use of web addresses names etc.?
7. Did you do a search for similar names, trademarks etc.?
8. Did you know that you have limited IP insurance in your liability policy?
9. Did you ask your insurance agent about IP insurance?
10. Did you ask your insurance agent for a list of all applicable policies including business interruption and terrorist coverage?
11. Did you review the legal options for IP development and protection? Patent; Trademark or brand-name; Copyright and Related Rights; Geographical Indication; Trade Secrets/Undisclosed Information? This process must be tailored to your specific type of IP.
12. Did you review means and options of monetizing your IP? Licensing; Assigning; Auction it; Cross license it; Maintaining IP Value; Infringement and protection costs; actual production, avoiding patent trolls.

### **Five Steps of An ERM process**

- Strategic Plan: Organize and write
- Risk Analysis: Identify, measure, evaluate risks
- Risk Response: Identify, measure, analyze
- Decision process: Model, Plan change, Implement change
- System control: monitor, assess, communicate

This simple ERM framework is applied dynamically over time as show in the following figure. The most critical step is 2. Identify, measure, evaluate all risks. All other steps in the process depend on this step being consistently and compressively conducted over time

# Simpler ERM Framework

## ERM Strategic Management Framework<sup>1</sup>

- |                      |                              |
|----------------------|------------------------------|
| 1. ERM Program:      | plan, organize, write        |
| 2. Risk Analysis:    | identify, measure, evaluate  |
| 3. Risk Response:    | identify, measure, analyze   |
| 4. Decision Process: | model, support, implement    |
| 5. System Control:   | monitor, assess, communicate |



<sup>1</sup> - Modified standard management model

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## The Six Steps to Licensing and Commercialization

Step 2. results in identifying and measuring the risk and rewards upfront associated with new product development. One option in step 4. is to partner with a licensee committed to the goal to create the greatest value for owners, licensees/customers, the other stakeholders.

### Other steps and options within this process for your IP

1. Identify and Assess a Technology
2. Request Additional Information and Sign CDA (Confidential Disclosure Agreement)
3. Submit a License Application
4. Draft a Term Sheet
5. Produce, Negotiate, Sign a License Agreement
6. Licensee Develops, and Markets

### ERM IP Stakeholders:

For Industry- potential licensees

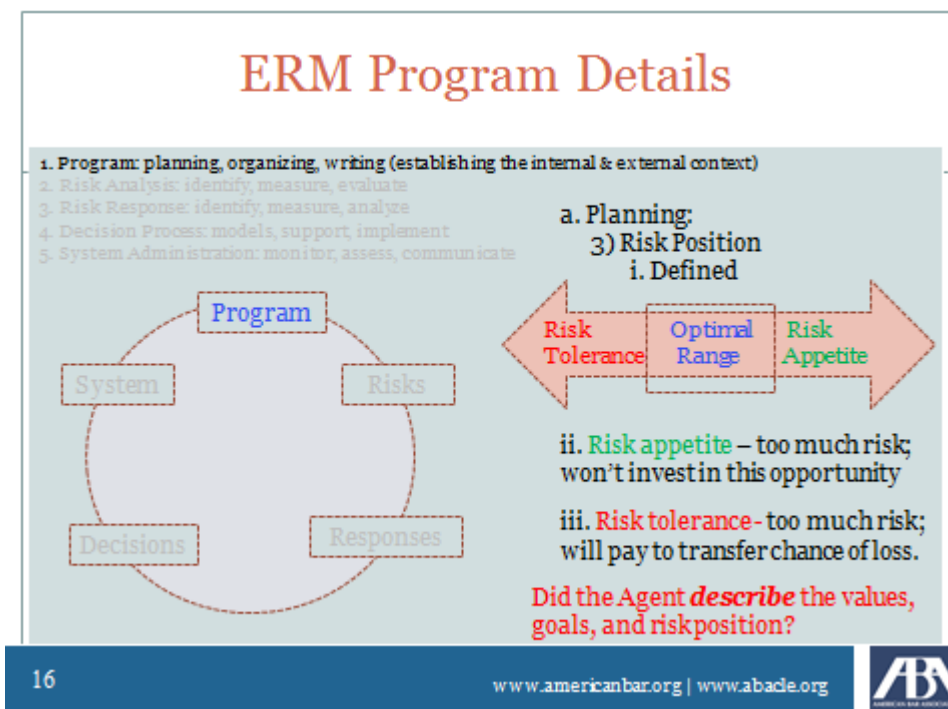
For Inventors- Potentially receiving a share of their commercialized invention

For Entrepreneurs- some cases spin it out into new businesses; Research/inventor  
Entrepreneurs

## Risk Recalibration

This involves a strategic approach to managing risks in all aspects of operations. The approach will lead to more informed decision making, with a focus on enhancing innovation, creativity, productivity and overall performance. Strategic elements of the risk management include:

- Assessing risk tolerance and risk appetite: High tolerance for risks in the pursuit of innovations and engagement
- High tolerance for strategic risk-taking that enhances quality, promotes productivity, creativity and reputation
- Moderate tolerance for rewarded financial risk
- Low tolerance for risks that undermine, human capital, actual safety, or the perception of safety, or discharge of fiduciary responsibilities



## II. IP Insurance and Commonly Missed Insurance

### Using Insurance To Manage Intellectual Property Risk

ERM begins with an efficient insurance portfolio base and extends management to insuring IP; then to positive risk opportunities. Most businesses face IP risks, whether that risk primarily relates to copyright, trademark, patent, or other areas. Historically liability insurance policies offered some coverage on an inadequate and fragmented basis. There is some coverage, for example, as part of the common business liability policy, The Commercial General Liability (CGL) policy. Under the CGL “Personal and advertising

injury” coverage the policy section states there is coverage if you are sued for “d). Oral or written publication, in any matter, of material that slanders or libels or organization..., or e)...that violates a person’s right of privacy; or f). The use of another’s advertising idea in your “advertisement”; or Infringing upon another’s copyright, trade dress or slogan in your “advertisement””.

Many business transactions require insurance and indemnity agreements, hold-harmless agreements and others contract terms. An SME is likely to have a comprehensive general liability insurance (CGL) policy. Most U. S. enterprises have a CGL policy which contains this “Personal and advertising injury” coverage part. If a covered claim was tendered by the business owner to the insurance company, the company may accept the obligation to provide defense, appoint an attorney and pay the defense costs, and later may pay any proven damages to a third party claimant. This is defense coverage against being sued. It does not provide for the cost of enforcing your own IP, patents, trademark, copyright or other areas.

Single insurance policies for patent defense insurance and abatement coverage can be added for certain businesses. Few SMEs also buy additional IP insurance to covering litigation costs of enforce their own or defend against being sued for infringing upon other’s patents, trademarks, copyrights.

There are two types of this IP patent insurance: Defense and Abatement. Patent Defense insurance pays the cost of defending against claims of patent infringement, and is the most important. Patent Abatement Insurance pays to enforce the insured’s patents. In general the price of patent defense insurance is about 2% of the policy limit. Wells Fargo offers coverage for loss of earnings if you have to pay licensing fees. Or you are sued for patent infringement and it causes loss of earnings from liability to pay licensing fees. Having this patent coverage can uphold the stock price of an SME for which IP is a significant intangible asset. SMEs may benefit from this IP patent coverage which maintains the value of patents and enhances fund raising or and to sale to a larger company. Banks/creditors may demand this insurance to uphold the value of patents of SMEs, to support the IP assigned as collateral. Customers or suppliers may require patent insurance along with liability insurance.

The AIG insurance company actually marketed an IP insurance policy but withdrew completely from that market. AIG also had marketed mortgage portfolio insurance to banks and was bailed out of that market with federal general revenue tax funds. Today Lloyds Syndicates backs IP policies specifically designed for business IP exposures. There is not a competitive market for the delivery of IP-related insurance solutions in an efficient manner. One source of this cover is RPX – Backed by three names at Lloyds, marketed priced and underwritten by a managing general agent (MGA).

ERM of course includes evaluation of all contractual risk transfers and needs for insurance. There are many other forms of insurance which SMEs may need, and may not have including insurance for cyber breaches, business interruption (BI) and terrorist attack.

### **Types of Insurance Commonly Missed**

Management of all insurance for SMEs is important, but beyond the scope of this chapter. Thus only two types of insurance that are commonly missed or miss applied by SMEs are discussed. Income loss/ business interruption (BI), and terrorist attack coverage are just two examples from a check list of available insurance. BI, income loss, is a vital coverage for SMEs and Contingent BI insurance can pay for income loss due to property loss at a key supplier or a key customer. The operations of a customer or key supplier could be interrupted by an insured peril: explosion, windstorm or terrorist attack, causing loss of income and extra expenses at the SME.

Another commonly missed insurance coverage is for direct or indirect loss from a terrorist attack. Terrorist attack coverage can be added. This maybe a key exposure in urban areas or near a terrorist target place or event, like the Boston marathon bomb (s) or a federal building or historic landmark. SMEs regardless of location should consider buying back the typically excluded terrorist coverage. Then extend this to BI loss caused directly or indirectly by terrorist attack at the SMEs key customer or key supplier. The indirect coverage is through contingent business interruption (BI) insurance.

Life and disability insurance for key business owners and employees is important to provide cash for rehab or replacement of key employees, and to fund transfer to surviving or new SME owners

### **TRM and ERM Risks Intersect/Overlap**

An ERM team can assist in identifying and assessing risks and areas of opportunity by assessing both traditional and enterprise wide risks. Traditional risk management (TRM) focuses on mitigating potential loss, often by transfer through insurance. TRM and ERM risks intersect/overlap as is shown below. (from a presentation by Jay W. Schrankler, Executive Director, University of Minnesota, Office for Technology Commercialization).

Hazard Risk: Liability torts, Property damage, Natural catastrophe

Financial Risk: Pricing risk, Asset risk, Currency risk, Liquidity risk, Inflation, etc.

Operational Risk: Customer satisfaction, Product failure, Integrity, Reputational risk (Brand)

Strategic Risks: Competition, Social trend, Capital availability



Regulatory Risks: Local law, Medical, Trade, etc.

## Risk Management and the Role of IP

- **Hazard Risk:** Liability torts, Property damage, Natural catastrophe
- **Financial Risk:** Pricing risk, Asset risk, Currency risk, Liquidity risk, Inflation, etc.
- **Operational Risk:** Customer satisfaction, Product failure, Integrity, Reputational risk (Brand)
- **Strategic Risks:** Competition, Social trend, Capital availability
- **Regulatory Risks:** Local law, Medical, Trade, etc.

IP Risk  
Intersects/Overlaps  
many risk categories

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### Risk Assessment Involves Valuing IP Across Three Risk Factors:

After all types of risk are identified in ERM step 2 we focus on risk assessment to value IP opportunities including Technical/Technology Factors, Legal Factors, and Commercial Factors. ERM manages strategic, operational and economic risks detailed in the table below.

### Valuing IP: Importance, Legal, Commercial

Technical/Technology Factors	Legal Factors	Commercial Factors
Importance of the technology in the field	Enforceability	Is the industry desirable?
Scientific Basis for the technology	Relative Strength versus other patents	Industry trend-emerging, declining?
Originality of the technology	Scope/breadth	Can the patent generate

Relevance/Obsolescence of the technology	Claim, scope and breadth	Is the invention significant or trivial?
Generality of the technology	Novelty	Can it protect a revenue generating position?
Degree of technical importance to business	Confidence in validity of patent	Can infringement be easily detected?
Difficulty of producing	Enforceability	Is the inventor involved?
Number of existing alternative approaches	Ability to detect infringement	Has there been public disclosure?

### III. Legal Tools of IP Risk Management

The ERM approach for a particular SME requires an assessment of each available IP legal tool. The following tools of IP are risk managed to commercialize a firm's IP:

- **Patent:** A patent is an exclusive right granted for an invention, which is a product or a process that provides a new way of doing something, or offers a new technical solution to a problem. A patent permits the owner to stop others from using the invention for a limited period, generally 20 years. Is the opposite of a trade secret because the patent fully discloses all aspects of the invention, whereas the owner wants to keep a trade secret from competitors. Both are needed to grow a startup. A patent is important to startup so they can license it.
- **Trademark:** A trademark or brand-name is a distinctive sign which identifies the source of certain goods or services provided by a specific person or enterprise. The period of protection for a trademark varies, but can generally be renewed indefinitely.
- **Industrial Design:** An industrial design - or simply a design - is the ornamental or aesthetic aspect of an article produced by industry or handicraft; registration and renewals provide protection for, in most cases, up to 15 years.
- **Copyright and Related Rights:** Copyright registers and protects authorship; describes rights given to creators for their literary and artistic works (including computer software). Related rights are granted to performing artists, producers of sound recordings and broadcasting organizations in their radio and television programs.

- **Geographical Indication:** A geographical indication is a sign used on goods that have a specific geographical origin and often possess qualities or a reputation that are due to that place of origin.
- **Trade Secrets/Undisclosed Information** is protected information which gives a trade advantage; is not generally known among, or readily accessible to, persons that normally deal with the kind of information in question, has commercial value because it is secret, and has been subject to reasonable steps to keep it secret by the person lawfully in control of the information.

**The Process Of Commercializing IP Is Institutionalized At The University Of Minnesota.** <http://www.research.umn.edu/techcomm/documents/VentureCenterStart-upGuide.pdf>

The process of commercializing an SME's IP can follow a proven venture capital model similar to the **Venture Center at UMN**, a business unit within the **Office for Technology Commercialization (OTC) of the University of Minnesota**. **OTC** works with researchers, entrepreneurs, and investors to create new start-up companies based on research conducted at the University of Minnesota. OTC offers a guide to create businesses that accelerate and maximize the impact of innovations and create jobs. A proven venture capital model is applied to carefully analyze start-up companies and then focusing resources and value creation in these companies to start a new company based on intellectual property.

This program matches CEOs and business executives with creators of inventions. Other centers are available to connecting innovators to experts and funding the Venture Centers can recruit key individuals who have a track record of success in establishing, financing, and leading start-up companies.

These centers can allow successful entrepreneurs, CEOs, and business people to participate in reviewing intellectual property and, if an appropriate opportunity is identified, contributing to or leading a new start-up company.

They can be constantly on the lookout for experienced entrepreneurs to fill CEO-in-Residence positions, leaders with a proven track record in running successful start-ups, with expertise in raising money at that early stage, and with a breadth of experience in evaluating technology-based start-up opportunities

This chapter draws upon the Office of Technology Commercialization (OTC) at the University of Minnesota (UMN) risk managing the commercialization of software and information technologies. ERM of IP risks is implemented based on the evolving IP law, although application of an ERM framework.

### **Commercialize IP With a Startup or Existing Company**

The ERM steps 3 and 4 involve evaluation to determine whether the firm should best commercialize a new technology via a license to an existing company, or through the creation of a new start-up company.

To bring a specific technology to market. There are three factors that are critical to a new start-up company:

1. World-class technology
2. Experienced management
3. Financial capital

The UMN Venture Center aims to bring these critical success factors together in order to create successful companies with long-term viability.

ERM by type of discipline is shown in the University of Minnesota's Office of Technology Commercialization: <http://www.research.umn.edu/techcomm/#.UeahfG31zoQ> "Agriculture and Horticulture, Life Sciences, Physical Engineering Sciences and Software and Information Technologies. Each technology listing includes a detailed description and the contact information for the appropriate Technology Marketing Manager. Additionally, some technologies may be licensed, non-exclusively, online. These agreements have standard terms and conditions that enable immediate licensing using a credit card or eCheck®. This is an interesting option particularly for small enterprises. More information is available on the [FAQ's page](http://www.license.umn.edu/faq/default.aspx). <http://www.license.umn.edu/faq/default.aspx>.

### **Partnerships:**

[Minnesota Innovation Partnerships](#) (MN-IP) is a new and unique approach to the way the university handles intellectual property arising from research projects funded by business and industry partners.

New UMN inventions are presented to the public through this Technology Marketing Site. If a partner has a specific need, OTC may help facilitate a Sponsored Research Agreement through Sponsored Projects Administration (SPA). Typically, Sponsored Research Agreements provide companies a first option to exclusively license any inventions arising from the contracted work. For more information please review the [SPA website](#).

This marketing function to gain funding is now facilitated by the SEC Rule permitting small enterprises, seeking less than 1 million through an Initial Public Offering (IPO) to go directly to potential investors. The Security and Exchange Commission (SEC) on 07/12/2013 eliminated the prohibition against small business going direct to the capital market with its own IPO. Now small firms can directly ask angel investors to provide funding, circumventing a licensed securities broker. (Site this rule).

### **IP Risk Mitigation Strategies**

IP risk mitigation strategies outlined below must be individually tailored to each SME.

- **Risk Mitigation Strategies: Patent application: Balancing First in; Disclosure, Costs, Avoid Mistakes- Due diligence and capable patent writing.**
- **Patent Analogous To Real Estate--Enforce it or lose it.**
- **Patent timeline: Patent & Trade Mark- UMN Honey Crisp Apple Import of “mark” versus the “product”**
- **Requirements of Financing, Utility And Actual Production and Cost of Enforcement To Maintain Patent Value.**
- **Freedom to Operate, Validity, Infringement-What happens if you lose?**
- **Patent Trolls put some out of business, but Government Is Stepping In.**
- **President Obama vetoed ITC against Apple**
- **Trade –Nationalism risk-Will South Korea retaliate?**

These factors are considered in outlining patent strategy: Capable patent writing (The Honey Crisp Apple example), patent timeline, importance of the “mark” versus important of the “product”; requirements of Financing, utility and actual production to enforce a patent; cost of enforcement to maintain patent value; freedom to operate, validity, Infringement. What happens if you lose? Patent Trolls cause high costs and put some out-of-business. Risk Mitigation Strategies: Due diligence by inventors and investors. License it; Create a product or offering (Work on it; Assign it; Auction it off; Cross license it; Enforce it-prosecute infringers.

#### **IV. Strategy In Patent Application Process**

##### **First To File**

The America Invents Act (AIA) that was effective in 2013. The American Invents Act harmonizing US and other country’s laws. In most countries except U.S. you just needed to be first to file a patent. In America before 2013 it was first to invent can gain an enforceable patent. Now in the U.S. the person first to file gets the patent.

Most of the world has been 1st-to-file for some time.

AIA makes patents more black and white (less gray areas). Whoever patents the product first gets the rights. No more are there questions of maybe others invented it first. The act should prevent some lawsuits in the long run, and should help to cut down on court cases with this new first to file law.

A patent is enforceable for twenty years from the moment the application is filed. Due to research and red tape this typically results in 5-17 years of enforceable protection of sales.

Is there a pending patent? What would happen if someone copied the idea?

A provisional patent is a patent pending. It has no value until you file the actual patent the person with the pending patent can file an actual patent thus, having control of others not making the product. Within 6-8 months its public knowledge, and posted online.

##### **If You Invent It While An Employee**

If someone wants to patent an idea or a product while working for a company, they would likely have to get permission since under many employment contracts a product of your work is owned by the company. If an employee obtains such a patent the employer could fire the employee and sue both for damage against the employee and to invalidate the patent. The employee would do well to get some kind of waiver in writing just in case the

company tries to come after them later. Since everything the employee invents while with the company is usually the property of the company then the employee would need the firm's permission to use it on their own.

### Owning A Patent Is Like Owning A Real Estate Lot

The rights of owning a patent are analogous to the rights of a real estate owner. To main its value you must enforce your right to keep trespassers off.

ERM Process: Assess, Protect & Enhance Value

Maintaining the value of a patent is similar to owning real property. You must enforce your right to keep trespassers off.

Real Property	Intellectual Property
Rent or Lease it	License it
Build on it (e.g. house or building)	Create a product or offering (do work on it)
Sell it	Assign it
Auction it off	Auction it off
Swap it	Cross license it
Prosecute trespassers	Enforce it-prosecute infringers

### Patentability Requirements

When can an Invention be patented? There are essentially five substantive requirements that must be satisfied before an invention can be patented. These requirements together are commonly referred to as the patentability requirements. Patentable Subject Matter, Utility Requirement, Novelty Requirement, Non-obviousness Requirement and Adequate Description Requirement:

## Patentable Subject Matter 35 U.S.C. 101.

An ERM Process can determine what is patent-eligible:

In Myriad the U S Supreme Court Unanimously held that, “A naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated some DNA. CDNAI was patent eligible because it is not naturally occurring” (Id. At 10 to 18). cDNA is “a DNA that is complementary to a given RNA which serves as a template for syntheses of the DNA in the presence of reverse transcriptase.

The United States Supreme Court has repeatedly and consistently stated that there are only three categories of subject matter for which one may not obtain patent protection: (1) laws of nature; (2) natural phenomena; and (3) abstract ideas.\*

\*(<http://www.ipwatchdog.com/2012/06/02/patentability-overview-when-can-an-invention-be-patented/id=23863/>)Patentability Overview: When can an Invention be Patented?

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The Utility Requirement, 35 U.S.C. 101. The patentee is also required to demonstrate that the claimed invention is “useful” for some purpose.

The Novelty Requirement 35 U.S.C. 102 Requires the applicant for the patent to demonstrate that the invention is new. In essence, in order for an invention to violate this “newness” requirement it must be exactly identical to the prior art.

If the invention in question was described in a patent issued **anywhere in the world** more than 12 months prior to a US application being filed, then no patent can be obtained.

If the invention in question was described in a printed publication published **anywhere in the world** more than 12 months prior to a US application being filed, then no patent can be obtained.

If the invention in question was publicly used **in the US** more than 12 months prior to a US application being filed, then no patent can be obtained.

If the device, machine or compound in question was offered for sale **in the US** more than 12 months prior to a US application being filed, then no patent can be obtained.

“In each of these four cases we would also say that the earlier reference, knowledge or event is prior art that prevents a patent from now issuing, but this time not because the invention was not new, but rather because an application was made in the US too late! To complicate matters even further, this is the law relative to novelty that will be in place up to and including March 15, 2013. On March 16, 2013, we enter a brave new world thanks to the America Invents Act (AIA). Effective March 16, 2013, the United States becomes a first to file country, and the law of novelty will substantially change.”

The Non-obviousness Requirement 35 U.S.C. 113. Even if the applicant can demonstrate patentable subject matter, utility and novelty, the patent will not issue if the invention is trivial. Is it new, obvious, useful, naturally occurring, human? “In patent law, an invention is said to be obvious when it is so to a person having ordinary skill in the art or science to which the invention relates. See *Eisele v St. Armour*, (C. A. Mich.) 423 F.2d 135.” (<http://legaldictionary.lawin.org/obvious/>)

Adequate Description Requirement – 35 U.S.C.112 The description must be such that those skilled in the art will be able to make, use and understand the invention that was made by the inventor.

### **Writing The Patent Application To Stand Against Patent Invalidation Claims:**

Well written patent application can avoid and successfully stand against patent invalidity claims, and can avoid loss of possible loss of trade mark protection, (case of UMN’s Honey Crisp Apple). Other considerations include the Importance of the “mark” versus important of the “product, territories, opportunities and patent timeline.

**Loss of Patent Protection from Invalidation Claims:** (Patenting Biologicals, Case: Assoc. of Molecular Pathology, et. al. v. Genetics, Inc., et.al. (569 U.S.\_\_\_\_\_(2013) (Myriad) . Myriad and others who attempt to patent genomically engineered genes potentially lost million/billions, by the finding that “Corporations Don’t Own Your Genes” or “Genes Are not Patentable” both statements can be qualified by an ERM approach to patenting. AMP v. myriad makes claiming naturally occurring cleaved (isolated) DAN patent-ineligible. (site “Patenting Biologicals, by Z. Peter Seasick, Vaile C. Goswitz, & Amanda M. Prose, [www.mnbar.org](http://www.mnbar.org), Bench &7 Bar of MN, Sept 2013)

### **Other Assessment Factors**

Utility And Actual Production To Enforce A Patent.

Cost of Enforcement To Maintain Patent Value.

Freedom to Operate, Validity, Infringement. What happens if you lose?

Risk Mitigation Strategies; Due diligence by inventors and investors

Patent Trolls cause high costs and put some out-of-business, and U.S. Federal Government is stepping in.



**Measuring cost and value:**

**Valuing is subjective since there is no market.**

Until IP is monetized somehow, by sale or license or other means it is difficult to determine value. Occasionally outside firms are hired to audit a patent, license or consider other IP options to estimate their worth. Several factors which influence value can be evaluated:

**Cost of Enforcement To Maintain Patent Value**

Cost of monetizing IP						
Patent Application	Costs					
	Filing		Attorney		US patents Office	
	Fees		Fees		Actions	
Provisional	100		3000		add 10 to 80%	
Conversion						
US Utility	1000		6000			
PCT	3000		4000			
Each Nation	10000					
stage	per country		>\$50K			

**Attorney’s Fees and Costs:**

IP attorneys can be very expensive. Court recently labeled IP litigation “vexatious” The Sixth Circuit ordered sanctions of substantial attorney’s fees for “vexatious litigation,” in Pharmacy Records v. Nassar. The First Circuit approves a departure from the lodestar method and the reduction of a fee award for reasons relating to the trial Court’s determination of what is reasonable, including deterrence of overly aggressive litigation tactics, in T-Peg, Inc. v. Vermont Timber Works, Inc.

**V. Risk Managing Trade Marks, Copyrights and Licensing**

**Risk Managing Trade Mark And Copyrights:**

Copyrights last until 70 years after author's death.

Do not use your product's name as a generic term.

The rights to aka Kleenex could be lost by calling it a tissue! Rights to the most valuable trade mark Coca-Cola or coke could be lost with an add that calls for a cola. Value of

“Bayer Aspirin could be lost by calling it Aspirin. Add for Advil could be lost by calling it ibuprofen; Add for Tylenol could be lost by calling it acetaminophen.

The proliferation of Internet-connected devices in and around the home has led to a growing number of content creators looking to reach consumers on terms that these consumers can appreciate and ultimately value. Video content, whether produced by professionals or amateurs, has made its way to all sorts of screens both big and small. However, all of this activity raises questions that lawyers, producers, and content owners alike are struggling to answer.

#### Copyrights in Digital Video Distribution

The online/digital world is changing the traditional world of video distribution and changing Copyright issues. Entrepreneurs in the online/video marketplace face copyright issues as we all try to better understand the intersection of entertainment, technology, and the law. The proliferation of internet-connected devices and the changing face of video distributions are the subjects of judicial and legislative decisions affecting video distribution. All of this activity raises questions that lawyers, producers, and content owners alike are struggling to answer.

Fair Use and Copyright Clearance for creative entrepreneurs involve controversy over fair use is an important topic in popular and legal circles, with proponents on either end of the spectrum. Those in favor claim fair use is a "right" as if born right out of the U.S. Constitution and those opposed use more of a strict constructionist theory and rarely find enough support. Evaluation requires the statutory context of fair use and copyright clearance, recent rulings and decisions that may help practitioners evaluate fair use matters, and best practices when counseling entrepreneurs on fair use.

Protecting a copyright can be expensive and maybe unsuccessful.

First Circuit granted summary judgment dismissing software copyright claims absent proof of which specific programs were deposited with the Copyright Office, in Airframe Systems Inc. v. L-3 Communications Corp

#### Statute of Limitations:

Fifth Circuit reverses the district court to consider claims that fall within the statute of limitations, even though plaintiff alleged infringement for more than 10 years, in Jaso v. The Coca-Cola Company.

#### Federal Question:

A purported co-author and co-owner of a copyright who received a cease-and-desist letter from a collaborator could bring an action under the Declaratory Judgment Act for a declaration of ownership right in Severe Records LLC v. Rich Copyright Pleadings: If a plaintiff registers copyrights after filing a complaint but does not supplement the complaint, the court may dismiss the case, the Second Circuit noted in Pyatt v. Raymond.

“John Doe defendants”: Discussion of several recent cases that address whether Internet service providers may disclose the names and addresses of persons whose

IP addresses show potential infringing downloads or uploads and unauthorized sharing of copyrighted materials.

Jurisdiction:

In-depth discussion of the significance of jurisdiction and venue in copyright pleadings, and an expanded section on supplemental jurisdiction.

First Sale Doctrine:

Discussing the doctrine's limits regarding foreign copies and software licensees.

Statements That Are Not Hearsay:

The Ninth Circuit allowed an investigator's report about musical performances he heard in a restaurant as percipient witness testimony, in *Range Road Music, Inc. v. East Coast Foods, Inc.*

**Opportunities: Patents, Licenses and Trademarks Without Use or Manufacture.** When manufacture of an invention is not a good option other strategies may be feasible: License, create a product or offering, work on it, assign it; auction it off; cross license and enforce it-prosecute infringers. License it; Create a product or offering (Work on it; Assign it; Auction it off; Cross license it; Enforce it-prosecute infringers).

Ensuring Proper Royalties: Monitoring Licensee Compliance to Licensing Requirements:

Unlike most business processes and functions for which companies can implement controls to manage their risk, licensors must trust and rely on the internal control environment of their licensees to ensure intellectual property (IP) is protected and they are compensated fairly.

Internal controls include alerting management when their license agreements are about to expire. The best way to ensure that a license does not expire is to forward any changes in your purchaser, company, billing and shipping contact information to CEO or CRO before those changes occur.

Consider the following example: In the first quarter of 2007, a consumer electronics company that manufactures and distributes products through multiple channels discovered it had been paying royalties to the incorrect licensor. This had been occurring since the inception of the licensing agreement nearly two years earlier, with approximately \$1.2 million disbursed incorrectly. All three companies involved were publicly held so elements of ERM were legally required. The occurrence of such a major error raises several questions:

Why did internal controls as mandated by Section 404 of the Sarbanes-Oxley Act fail to catch this error?

Who is monitoring for any red flags to emerge for the licensor when it did not receive required royalty payments?

With regard to the company receiving incorrect royalty payments, was there a significant shift in royalty revenue from this licensee to this company?

Did anyone at this company notice or wonder why?

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### **Reverse-Payment License Agreements:**

A review of the Hatch-Waxman Act Post-Actavis Supreme court decision sets new standards to assess reverse payment settlements or reverse-payment licensing agreements. On June 17, 2013, the U.S. Supreme Court in FTC v. Actavis held that reverse-payment licensing agreements used to settle Paragraph IV ANDA (part of the Hatch-Waxman Act) litigation are subject to antitrust scrutiny. Thus defining options available for crafting reverse-payment settlements

### **VI. University Student Case Study: The IP experience of a new Product Design Company in The Carlson School of Management:**

Yehan Wang and her business partner started a product design company in August 2013. They have been engaged with an ERM entrepreneurship process for almost a year and are finally moving into the market. They planned to licensing product ideas and end up being the manufacturer. Their first product is a magnetic whiteboard on refrigerator door so people can keep record of the expiration dates of the contents. They are finishing the design process and will get samples in the next few weeks. And are working on two more products at this time.

They filled a provisional patent application for the first product last November and plan to hire a patent attorney to handle the patent application in the next few months. One thing about the business partner is that is extremely cautious when it comes to intellectual property. A significant portion of their startup cost goes to legal service fees for starting up the company and several initial agreements. They started the company with a formal non-disclosure agreement in hand and disclosed no information unless the NDA was signed.

They intend to license product ideas. This philosophy is a part of their strategic planning influencing them when making long term plans. The fact they are and will be dealing with ideas makes them cautious in the business setting. They have taken measures to control the IP risk and reputational risks and try their best to do follow the right process. They have general liability business insurance, and plan to get product insurance once we move the products forward. They met with insurance agent who specializes in IP insurance.

They contacted the paralegal to finish up the sales contract for our sales rep. who will be an independent contractor and they will carefully risk manage that contractual relationship. The paralegal suggested one last chance to benefit the company's interest. That is to get

the independent contractor to start a LLC and for us to sign a consulting agreement with the LLC. This is currently under consideration.

## **CONCLUSION**

This chapter describes new initiatives and methods which mitigate IP risks and open opportunities for SMEs, entrepreneurs and inventors: Holistic ERM methodology, new IP laws, venture centers, and access to capital have opened new paths with partnerships and capital to develop and commercialize IP. The chapter describes how to apply ERM to manage the risks and opportunities to survive and thrive applying strategic and tactical processes. The ERM process requires a team of trusted experts to guide entrepreneurs and inventors through the maze of obstacles to continuously protect and commercialize/monetize IP.