MARSH

The Risk Consulting Practice

A Closer Look:

By Kimberly K. Cauthorn, Intellectual Asset Management Practice

Managing Intellectual Property Risk: Because Knowledge Is A Company's Greatest Asset

I. Introduction

The phrase, "Our people are our greatest asset," has become a mantra for American business. Of course, it's always been true that no company can succeed without talented managers and employees. So what does this phrase really mean? Are people more valuable to companies today?

It certainly is true that today there is a greater premium on employees' knowledge than ever before. It is a professional's creative thinking and breakthrough ideas—turned into revenue-generating products and technology—that increase shareholder value in the global marketplace. But those very ideas have value in and of themselves.

Intellectual capital (IC) is "knowledge that can be converted to value."[1] The two components of IC are human capital (HC) and intellectual assets (IA)[2]. Within IA is a subset of ideas that can be legally protected: intellectual property (IP)[3]. In the past 10 years, IP has gone from an afterthought to a critical strategic asset that must be nurtured, managed, and protected. Today, the intellectual property assets at many companies are viewed as more valuable than their buildings, machinery, and fixed assets.[4]

And the value of IP is not merely its use as a protective shield. For example, a strong, recognizable trademark is valuable not only to protect a company's branded products but also to generate revenue by licensing to others to attach to their products. Patents are valuable not just because they protect market share by serving as a defensive wall around the products commercializing the inventions covered by the patents, but because the ideas covered by the patents can themselves be licensed, sold, or bartered.[5] Nor are patents important only to the technology and biotechnology fields. Just recently, a Canadian company, Amazin Raisins, sued Ocean Spray for patent infringement, claiming that Ocean Spray's Craisins dried cranberries infringe on a patent for preparing dried fruit that Amazin Raisins had acquired.[6] As has been widely publicized, IBM generates between $1.5-2 billion in revenue per year by licensing its non-core IP[7]. And, similarly, universities now generate nearly $1 billion per year in licensing revenue.[8]

(continued)

There are also companies formed solely either to generate and license their own patents, such as Ronald A. Katz Technologies, or to obtain and license patent assets of others, such as Pinpoint, BTG, and Acacia. Even large, publicly-held companies have formed divisions or subsidiaries to acquire and monetize IP. Some companies, such as Forgent Networks, may even use non-core technology patent licensing revenue to support their core business. These new models of intellectual property management (IPM)[9] represent new sources of revenue. Such models also increase IP risk.

While there is typically broad understanding and appreciation at the "C" level that effectively managing intellectual property can make the difference between success and failure, executives have not necessarily factored in the IP risk/reward balance into enterprise-wide risk assessments. Historically, companies' research and development function, out of which IP resulted, was viewed as something of a mysterious process. Once the ideas were generated by R&D and protected by the lawyers, the business people then came in to transform them into tangible, revenue-generating products.[10] As companies are coming to understand and appreciate the value of ideas and IP to the company itself, the innovation and commercialization processes are being coordinated on an enterprise-wide basis.

At the same time, however, companies have not extended their enterprise-wide IP management to enterprise-wide IP **risk** management. For example, accounting and finance, which are responsible for setting reserves to cover IP exposure and often include the risk management department, may not coordinate with legal, which is often closest to and has the deepest understanding of a company's IP exposure. As aptly put in a new book on IP valuation:

> Re-evaluating risk and understanding the true value of intellectual property is a major problem, particularly important for business practitioners, including business analysts and investors, venture capitalists, accountants, insurance experts, intellectual property lawyers and also those who hold intellectual property assets, such as media, publishing and pharmaceutical companies, and universities and other research bodies.[11]

The focus of this paper is on the importance of IP risk management-identifying, assessing, quantifying, and managing IP risk.[12]

II. What Is Intellectual Property and What Is It Worth?

Simply put, IP consists of legally protected "creations of the mind." The law provides several forms of protection for owners of IP:

- Patents protect useful and ornamental inventions.[13]
- Copyrights protect creative expression in recorded, tangible form—including software.[14]
- Trademarks identify the origin of goods or services traded via commerce through symbols, marks, or other words.[15]

(continued)

- Laws also protect trade secrets, defined as any confidential information, such as "know-how" and customer lists, that provide a competitive business advantage to a company.[16]

Effective intellectual asset management requires strategic decision making to determine the best methods of protecting inventions and creations. One, or a combination of more than one, type of IP may be required.[17] For example, Coca-Cola chose to protect the formula to the Coca-Cola soft drink through trade secret protection instead of patenting the formula or registering a copyright on the formula recipe. Patenting the formula would have granted a monopoly right to practice the invention, but only for twenty years, and patenting would have required disclosure of the formula. The Coca-Cola name itself is protected as a federally registered trademark.[18]

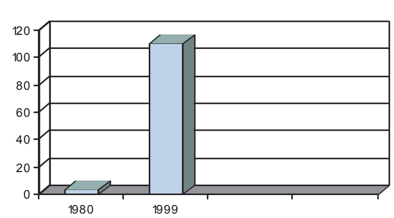
IP assets protect revenue by protecting revenue-generating products, and they generate revenue through royalties. For many technology companies—the biotech industry, for example—most of the company's value may depend on the value of its IP.

There is, of course, a huge potential upside for an IP owner—especially an owner of patent assets—in today's knowledge-based economy. Consequently, the number of patent applications filed, not just in the U.S. but in other countries as well, continues to increase.[19] For example, about 108,000 U.S. patent applications were filed in 1980, 289,000 were filed in 1999, and today, nearly 350,000 patent applications are filed annually.[20] Despite negative publicity and calls for reform, the USPTO continues to grant a large number of patents each year.[21] The growth of patent royalties has exploded in the past two decades, growing from $4 billion to $110 billion between 1980 and 1999.[22] Patent licensing revenues reached $130 billion in 2000.[23] With potential reward, however, comes risk.

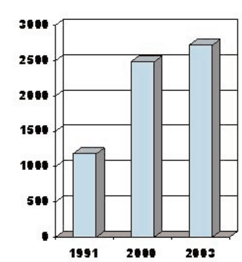
III. What Is Intellectual Property Risk?

The risks associated with intellectual property can be as daunting as the rewards are enticing. The number of licenses and royalty amounts may have increased, but so have the number of IP cases, especially patent infringement cases, and the monetary damage and settlement amounts. In fact, the total number of patent cases filed in the U.S. in 2003 alone was 2,716,[24] and today, the number of patent infringement suits filed is growing more than three times as fast as the number of non-patent civil suits.[25]

Growth of Patent Royalties



Number of Patent Suits Filed



(continued)

IP cases also do not settle as easily or as often as other types of civil cases. Of the 11,000 patent cases filed between 1995-1999, more than half failed to settle in the first 12 months, and not until each side had spent at least $1 million in litigation costs.[26] Moreover, 76 percent of cases settle versus more than 95 percent of other types of commercial cases.[27]

Discussion of the reasons for this is beyond the scope of this paper, but there are several contributing factors:

1. The litigation goals become disconnected from the business goals.

2. IP litigation, notably patent litigation, involves myriad interrelated legal and technical issues.

3. Patent law remains unsettled and is in perpetual "catch-up" mode with technological innovation. In fact, the Federal Circuit's reversal rate is nearly 50 percent.[28]

In addition, disputes can arise over IP ownership. Each person who has made a substantial contribution to the invention must be named as an inventor on the patent, and all inventors on a patent are co-owners.[29] An unnamed inventor can force inventorship correction in order to be added as an inventor—and therefore, owner—of the patent. An employee/inventor may, through inadvertence or otherwise, fail to assign her rights to the patented invention to her employer, therefore retaining ownership rights in the patent.[30]

And the initial costs of obtaining and maintaining IP are not insubstantial. The average cost (attorney's fees and U.S. Patent Office fees) to obtain a U.S. patent is $20,000, not including R&D costs, which can be as high as $4 million per patent.[31] In addition, several thousand dollars in patent maintenance fees must be paid.[32] To obtain worldwide legal protection over the twenty-year life of a patented innovation may require an investment of at least $200,000.[33]

Without a risk management approach to IP, companies fail to proactively identify and assess IP risk. Therefore, they misdiagnose the total cost of managing IP risk, whether company-wide, or for a single division or subsidiary, a specific product line, a licensing program, a specific contract being negotiated, or the purchase or sale of a business or IP assets.

IV. What Is Intellectual Property Risk Management?

A. The Five Intellectual Property Risk Quadrants

To understand the perils associated with IP, it is first important to understand the rights conferred by IP ownership and what constitutes trespassing on or misappropriating IP:

- Patent infringement results from making, using, selling, or offering to sell a product or device covered by the invention(s) claimed by the patent.[34]

(continued)

- Trademark infringement results when a confusingly similar mark is used in such a way that it creates likelihood of confusion, mistake, or deception.[35]

- Copyright infringement results from unauthorized copying of copyrighted material.[36]

- Trade secret misappropriation results from improperly acquiring or disclosing a trade secret.[37]

The first step in taking a risk management approach to IP risk is to identify IP exposure. To identify IP exposure, a common framework is needed that takes into account all facets of business risk: legal, financial, and traditional risk management. One approach is to structure an IP profile built from a framework divided into five IP risk quadrants.

	Litigation Costs	**Impact**
Business IP Owner Legal Plantiff Risk Management 1st Party	1. ENFORCEMENT EXPENSES	2. LOSS OF POSITION/VALUE
Business IP Owner Legal Plantiff Risk Management 1st Part	3. COST OF DEFENSE	4. DAMAGES/INJUNCTION
5. TITLE	**COSTS TO SECURE/DEFENDS**	**LOSS OR IMPAIRMENT OF TITLE**

1. **Intellectual Property Enforcement Expenses**—In addition to the costs to obtain and maintain IP, there are costs and risks associated with protection and enforcement of IP ownership rights. If a trademark holder does not vigorously enforce its trademark rights against infringers, then the trademark owner risks not only impairment of the value of the trademark, but also the trademark itself. Design houses such as Tommy Hilfiger spend millions of dollars a year enforcing their trademarks by suing those who make and sell "knock-off" products. If a patent holder does not sue infringers, then the patent's use as a way to protect product market share is worthless. To establish a higher royalty rate for licensing its patents, a patent owner must sometimes first sue to establish the strength of its patents and to force a commercially reasonable license. The owner of copyrighted software may lose millions of dollars due to sales of counterfeit software if it does not vigorously enforce its copyrights against marketers and distributors of counterfeit software.[38]

   However, costs to enforce IP ownership rights can be high, sometimes prohibitively so. IP litigation, especially patent litigation, is extraordinarily expensive. The American Intellectual Property Law Association conducts an economic survey that, among other things, tracks IP litigation costs. Its survey results show that legal costs range from $250,000 to take a small copyright infringement case through appeal to $4 million to take a large patent infringement case through appeal.[39] Seasoned IP trial attorneys believe these numbers are actually low. A hotly contested piece of patent litigation involving complicated technology, multiple patents, multiple targets, and large damages is easily a multiple of the AIPLA estimates. Especially

(continued)

because patent cases may last years and involve multiple appeals, legal expenses for just one party to a patent infringement suit may be in the tens of millions of dollars. At least one authority has noted that patent cases filed in the U.S. in 2000 will generate roughly $4.2 billion in legal costs by the time of resolution.[40]

Such costs may present serious financial obstacles for patent holders. For example, a small startup's concerns over cash flow and balance sheet credibility, particularly at critical stages in the business cycle, may lead to a decision not to pursue infringers. Or, an IP holder may initiate litigation only to find itself capitulating to an unreasonable settlement due to financial difficulty in continuing to fund the litigation. Even if the IP holder prevails, it may be a pyrrhic victory if more money is spent on lawyers than received through the damages awarded.

2. **Intellectual Property Loss**—Yet, failure to enforce its IP may cost a company dearly in terms of lost product and licensing revenue. It is estimated that 97 percent of Microsoft's software is illegally copied in China.[41] Consequently, even though Microsoft is the leading provider of desktop software in China, it earns little revenue there.[42] If an IP holder does enforce its IP rights, then it risks losing the patent due to a finding of unenforceability or invalidity. If the patent asset created a competitive advantage for a product of the company, then loss of the patent has a double impact—loss of the asset and loss of product revenue. Loss of the IP asset may also mean loss of licensing revenue on which the IP holder depended. Loss of the IP asset also results in the decreased value of the company itself.

At least in the U.S., it is the burden of the accused infringer to prove, by the higher evidentiary standard of clear and convincing evidence, that the patent is invalid.[43] Historically, it has been difficult to invalidate patents, due to the strong presumption of validity and deference given to the U.S. Patent and Trademark Office. Recently, the Federal Trade Commission issued a report focusing on the patent system and competition policy. Among its recommendations was creation of new procedures making it easier to challenge the validity of patents through administrative rather than judicial channels, and lowering the burden of proof from clear and convincing to preponderance of the evidence.[44] Patents survive validity and enforceability challenges during litigation approximately 54-55 percent of the time.[45]

Another avenue for invalidating a patent is to request a reexamination by the USPTO Anyone may request a patent reexamination, but reexaminations are relatively rare.[46] That being said, the number of reexaminations being granted appears to be on the rise.[47] The USPTO recently announced reexaminations of Pfizer's patent on Viagra, four Katz patents relating to call center technology,[48] and the Eolas patent on plug-in technology for Web browsers, which was recently successfully asserted against Microsoft for $521 million.[49]

Companies must also be aware of the variety of ways in which trade secrets may be lost. Failure to identify and protect trade secret-protected information can mean loss of competitive advantage if the company's trade secrets walk out with a disgruntled ex-employee and walk through a competitor's door. And the culprit needn't be a

(continued)

former employee. Just recently, a story emerged about an employee of an Asian company allegedly caught spying on competitors at a trade show.[50]

As noted above, trademark status for a product may be lost if not adequately enforced by the trademark owner, resulting in lost brand recognition.

3. **Intellectual Property Infringement Legal Expenses**—The financial, productivity, and reputational drains of defending against an infringement lawsuit can be debilitating. Even if the alleged infringer is found not to infringe, such a decision may be a hollow victory if millions of dollars were diverted to fund the litigation instead of to fund product commercialization efforts. And, of course, there is the more-difficult-to-quantify cost of lost management and employee productivity time.

4. **Intellectual Property Infringement Damages**—The damage and settlement amounts awarded for infringement, especially patent infringement damages, have been increasing. The total amount awarded for IP damages in the 1990s doubled the total amount awarded in the 1980s.[51] The top five IP verdicts in 2000 totaled over $900M.[52] Total patent infringement damages awarded were greater than $200 million in six of the nine years from 1994 to 2002.[53] Damages have been awarded for infringement of patents covering a wide variety of inventions, including cell phones, radar detectors, water purifiers, and film.[54]

   Settlement amounts are also increasing. Just recently, InterTrust settled with patent infringement litigation against Microsoft for $440 million.[55]

   If the remedy sought is an injunction, the impact can be devastating. If a company's primary product is found to infringe a competitor's IP and the competitor obtains an injunction, then the company loses its primary revenue source.

5. **Intellectual Property Ownership Issues**—Companies may be forced to defend their IP ownership rights. The litigation costs of defending against a claim that your company is not a valid licensee or assignee (or that the claimant should have been listed as a co-inventor) can be high. The cost, in terms of being forced to share licensing revenue or ownership, can be even higher.

B. Shaping and Building an Intellectual Property Risk Profile

The first steps in managing IP risk are identifying and assessing IP risk by shaping and building an IP risk profile. To shape and build an IP risk profile, whether it is relative to an entire company, a particular product, a transaction, a licensing program, or a specific contract, the risk level relative to each IP peril must be determined by reviewing seven areas:

1. the intellectual property profile-including IP-developed,-acquired, or -licensed;

2. the product or technology profile—what you are making, using, selling, or offering to sell;

3. an IP-to-product/technology comparison—are your key market differentiators protected?;

(continued)

4. corporate profile—including type of business, business goals, M&A activity;

5. financials—to determine growth areas and sources of revenue;

6. market and competitor(s) profile: market share, market position, IP litigation in the market, competitors' IP and products; and

7. business-to-business relationships: indemnification provisions, how IP ownership rights are determined and defined, IP due diligence on suppliers, licensors, strategic partners.

Review of these seven areas results in the identification and assessment of IP risk in the five IP risk quadrants.

1. **Exposures 1 and 2: The Risks Related to Intellectual Property Ownership**—Once a company obtains IP, it must be willing to enforce it. At the same time, an IP owner must understand the cost and risk factors associated with enforcing its IP. As a starting point, does the company maintain an inventory of IP it has developed, licensed, and acquired? What is the breadth and depth of its IP portfolio? Are the company's patent prosecution efforts keeping pace with its innovations and product improvements? Does the company monitor potentially infringing activities by others? Is the patent holder aware of potential validity or enforceability issues related to patents it owns? Does the company know how much it spends on IP enforcement?

   In deciding whether IP rights can be used effectively for competitive advantage, IP holders must stay abreast of the varying levels of IP protection available in foreign countries and determine whether obtaining IP rights in a particular foreign country is worth the required significant time and money expenditure.[56] If such IP rights are obtained in a foreign jurisdiction, IP holders must determine whether they are adequately protecting their IP against piracy, counterfeiting, and other infringement activity.

   Everything from software and DVDs to purses and sportswear is being pirated or counterfeited both in the U.S. and in countries with more lax IP protections or enforcement of IP protections. Illegal copying and downloading of music and movies is costing the entertainment industry millions of dollars. According to a recent study conducted by International Data Corporation (IDC), $80 billion in software was installed on computers worldwide in 2003, but only $51 billion was legally purchased.[57] Software piracy rates ranged from 92 percent in Vietnam and China to 22 percent in the U.S.

   It's not just an issue for the software, entertainment, and fashion industries. Monsanto stopped selling its patented Roundup Ready soybean seed in Argentina because black market sales of the soybean seeds were costing the company over $100 million in annual licensing revenues. The primary reason was that the Argentine government ceased funding the National Seed Institute, which had been in charge of policing unlicensed sales of the seed.[58]

(continued)

Some companies have tried to unlock the value of their patents by using them, or licensing streams generated from them, as collateral to secure loans. Companies should be aware of the risks involved, which include: defaulting on the loan and forfeiting the patent as well as the opportunity for future product revenue associated with the patent; and losing the patent due to a finding of invalidity or unenforceability in the course of litigation.

While a very small percentage of patents—around one percent—is litigated, that percentage varies with the type of patent. Some patents are litigated multiple times. Such a scenario could occur, for example, as part of a "stick" licensing program to prove a patent's value. However, that strategy involves the risk of losing the patent due to a finding of invalidity or unenforceability. As the statistic cited above demonstrates, a patent's chances of surviving a legal challenge are "little better than a coin toss."[59]

2. **Exposures 3 and 4: The Risks Related to Intellectual Property Infringement**—Legal costs to defend against patent infringement claims can run into the millions of dollars. While companies may believe that a product clearance process may slow down the product development process, the costs of being forced to abandon an R&D effort and defend against a patent infringement action could be much higher.[60]

The extent of a company's obligation to obtain legal advice before engaging in business activities that could result in infringement is not clear, at least in the U.S. Discussion of the unsettled issue of defenses to allegations of willful infringement is beyond the scope of this paper. However, the issue is currently before the Federal Circuit in the pending *Dana case*.[61] In the meantime, it still behooves companies to establish and implement policies and procedures to avoid infringing others' IP rights.

With the recognition of business method patents and the proliferation of the Internet has come an increase in the issuance of business method patents and patents relating to the Internet, including e-commerce patents. Because of the greater uncertainty surrounding increased use of licensing strategies such as suing the user—as opposed to the manufacturer—of the allegedly infringing product, it is not uncommon for business customers, including retailers and e-tailers, to require IP indemnification before purchasing products. In fact, a company may find that in order to secure a contract with a key customer, it may be forced to accept uncapped liability for IP infringement claims made against the purchaser of the company's product.

While companies may take precautions against trade secrets leaving with departing employees, they often overlook taking precautions against obtaining another company's confidential information through the hiring of other companies' employees. And use of consultants as independent contractors can give rise to similar issues. Moreover, if a company outsources engineering services abroad, it can be even more difficult to control their activities, especially those related to software development, thus increasing the risk. In such cases, it is also often harder to control the risk of confidential and proprietary information being misappropriated.

(continued)

With economic globalization, products are sold around the world, and the potential for infringement of IP rights in other countries, therefore, increases. The patenting systems of many countries are further developing, leading to an increase not only of patent issuances, but also of patent litigation.

The open source software movement presents risk as well. "Open source" refers to software source code that, rather than being proprietary, is kept open to public view in order to enable developers to modify, debug, and improve software code. The most well-known open source operating system is Linux. An increasing percentage of network servers run on the Linux open source operating system.

There are two issues regarding open source: (1) licensees' concern that they may do something which violates the guidelines of the open source General Public License, and (2) Linux distributors' concern that their recent success in the market will open them or their customers up to litigation from owners of proprietary software.[62] As to the former concern, companies fear running afoul of an open source license by incorporating a few lines of open source code within otherwise proprietary software where the source code kernel is not provided to downstream licensees. As for the latter concern, SCO, the company that purchased Unix, an operating system developed by AT&T, has sued IBM alleging that fragments of Unix code are in Linux.[63] There is also speculation that Microsoft could use IP litigation to slow down the erosion of Microsoft Windows operating system's market share by the Linux operating system.[64]

3. **Exposure 5: The Risks Related to Intellectual Property Ownership Issues**—Venture capital and private equity firms often invest in companies where IP may be the only asset. As a result, careful due diligence is necessary to ensure that title to the IP is not impaired due to issues such as failure to require employees to assign their IP rights or failure to include a co-inventor on a patent. The same issues arise in M&A transactions. After the cost of investing in or acquiring an IP asset, an investor or purchaser does not want to expend additional resources to litigate or have the value of the asset impaired.

When negotiating license agreements, licensees must also ensure that the licensor has the requisite ownership or license rights to license out the IP at issue.

Deciding which company owns the IP developed in a joint effort is particularly an issue in the life sciences industry, in which small companies develop highly specialized niches and then collaborate together or with universities or research institutions in researching new areas. When a resulting product is successfully developed and commercialized, disagreements can arise over ownership of IP and receipt of licensing revenue.

If a company makes use of outside consultants to assist with IP capture and development, several issues arise: Is the company aware of other projects on which the consultant is simultaneously working? What are the terms of the arrangement with the consultant? What are the confidentiality requirements? Such issues are not unique to the U.S. In two separate cases in Japan, former employees/inventors won judgments against their former employers because they had not been reasonably compensated for their inventions.[65]

(continued)

C. Managing IP Risk: Suggested IP Risk Management Strategies

Not only does it make good business sense to institute strong IP risk management practices, but the Sarbanes-Oxley Act of 2002 and the rules for implementing the Act require companies to conduct regular audits of their intangible assets and to report material changes that are likely to affect the company's operations or financial strength.[66] Furthermore, FASB 141 and 142 require companies to categorize and measure intangible assets.[67] These statutory and regulatory changes mean that IP counsel, the CEO, and the CFO must work together to translate how IP legal issues affect not only IP value but the company as a whole.

1. Exposures 1 and 2—The key to decreasing the risks associated with IP ownership is the strength of the IP itself. Therefore, a company's IP capture and development policies and procedures must be thorough, documented, and adhered to. The following is a sampling of questions that should be incorporated into an IP owner's "best practices" risk management checklist:

- Is responsibility for IP capture and development centralized in a single person, committee, or department?
- Does the company conduct formal invention disclosure brainstorming sessions with inventors, product development, and counsel on a regular basis?
- Are invention disclosure policies and procedures formalized, documented, and utilized?
- Are trade secret protection policies and procedures formalized, documented, utilized, communicated, and explained to employees and consultants?
- Are employees and consultants required to execute documents creating a duty of confidentiality and duty to assign inventions and creative works?
- Are exiting employees required to execute documents acknowledging surviving duties regarding protection of trade secrets?
- Are nondisclosure agreements systematically used prior to disclosure of trade secrets, and are such agreements reviewed by counsel and archived?
- Are IP ownership rights clearly delineated in joint development agreements and other types of partnering arrangements?
- When acquiring IP assets or companies owning IP assets, does the company use uniform and consistent IP due diligence policies and procedures to verify IP ownership rights?
- Are all license agreements inventoried?

(continued)

A company must understand the relationship between its IP and its financial strength and business goals. For example, what would be the financial impact if a key patent were invalidated? Would it mean loss of licensing revenue or loss of product revenue? Has the company followed an enforcement "checklist" to identify and understand the cost and risk factors associated with enforcing its IP?

As to enforcement costs, when negotiating licenses to your IP, the license should be clear as to who carries the duty and costs of enforcement. Also, enforcement costs should be built into the company's litigation budget. And, if litigation is inevitable, the company should carefully select counsel that has sufficient experience representing plaintiffs in similar IP disputes, and questions should be asked about the associated litigation costs. A careful litigation plan and budget process should be undertaken resulting in a litigation plan, timeline, and budget, with supporting assumptions. The purpose for this is twofold: (1) to estimate the litigation costs over time, and (2) to clearly communicate expectations regarding the business objective and how the litigation should be handled. This applies not only to formulating litigation strategy but also to the way in which such strategy should be implemented. For example, who are the litigation team members, and what are their roles? How should depositions, motions, and hearings be staffed? What are the approval requirements for expenses such as experts and discovery management?

Vehicles for funding IP litigation may take several forms. Under certain circumstances, counsel may be willing to take the case on a contingency fee basis. Insurance is available on a limited basis, primarily under two circumstances. IPISC, a managing general agent, may provide up to $2 million in coverage, but only if an infringer has not already been identified.[68] Other markets may offer coverage above the estimated litigation costs as a way to cap litigation costs. These markets require a very thorough assessment of the IP and of potential litigation costs associated with enforcing the IP. If the IP holder has licensed the patents under an exclusive license arrangement, then the licensee may be obligated to bear the costs of enforcing the IP.

It may be appropriate to obtain first-party coverage to protect the value of a company's IP or IP-licensing revenue streams. For example, a lender may require insurance when IP or IP-licensing revenue is used as collateral. A few markets, such as Kiln (a Lloyd's syndicate), offer this unique form of first-party insurance coverage.[69]

Many companies are now working more closely with international authorities and customs to track counterfeiting of their products. And the office of the USTR (United States Trade Representative) provides information which companies can access on IP protection and enforcement track records.[70] Companies are also devising product marketing strategies, such as selling bundled software packages at a reduced rate, to make proprietary software more affordable and the purchase of pirated software less tempting.[71]

There are companies that provide software to detect illegal copying, and the Napster case has at least established that downloading can constitute copyright infringement. Because of the controversy surrounding the use of peer-to-peer

(continued)

software to share copyrighted files illegally, legislation has been introduced that would make the peer-to-peer networks themselves liable for copyright infringement. However, several groups are lobbying to limit the application of the law to distributors of commercial computer programs that are specifically designed for wide-scale piracy on digital networks.[72]

In addition, there are consulting services such as Marsh Kroll's Investigations and Intellectual Property Practice that investigate evasion of royalty payments by licensees and work with government agencies to uncover counterfeiting operations and to conduct anti-counterfeiting raids.[73] Consulting services are also offered for contract rights management to assist companies with IP supply chain management.[74]

2. **Exposures 3 and 4**—Aside from the obvious risks of incurring high litigation costs to defend against IP infringement allegations and of paying damages or being enjoined from selling a product due to a finding of infringement, there are other risks as well. Companies may be less willing to do business with a company that has been sued for IP infringement. Companies or divisions of companies looking to be acquired may be less attractive to potential purchasers if they are burdened with defending against claims of IP infringement. Finally, R&D and product development costs cannot be recouped if a product is pulled off the market or must be re-engineered due to a finding of IP infringement.

The most effective tool to avoid infringement of others' IP is to have strong IP of your own. A strong IP portfolio protects a company's products in the marketplace and provides bargaining chips if a competitor alleges infringement. In addition, other safeguards may be implemented as well. The following are just a few of the questions that a company should incorporate into its IP infringement diligence checklist:

- Are there formalized, documented, and utilized policies and procedures for reviewing potential infringement issues when the company receives a communication regarding a potentially infringing product?
- Are there formalized, documented, and utilized policies and procedures for product clearance prior to the product development process?
- Has the company integrated its patenting processes and product clearance processes?[75]
- Are members of the legal team integrated into the product development and R&D processes?
- Do members of the product development, R&D, and other similar departments receive training on what constitutes infringement of others' IP?
- Do those who procure products or services or work with suppliers and subcontractors understand when it is necessary to obtain licenses and/or indemnification?

(continued)

There are also technology tools, such as the Patent Adviser software and the Delphion internet databases, to assist companies in avoiding patent infringement.[76]

In situations where an IP holder may be pursuing an aggressive licensing strategy against numerous entities, a pooling arrangement to fund litigation costs may be appropriate. For example, in those situations in which a company and its peers believe that payment of license fees to a third party is unwarranted—perhaps due to the questionable validity of the patents being asserted or an overly broad interpretation of the asserted patent claims—it may be worth spending millions of dollars in litigation costs. If funds are pooled, the costs are shared. Such an arrangement, in appropriate circumstances, may also allow for a coordinated approach to litigation strategy.

Companies may limit their liability by requiring that suppliers and vendors provide IP indemnification. If, however, a company is concerned that an indemnitor does not have the financial ability to honor its indemnification obligation, then supplier criteria can be developed and IP indemnification provisions crafted accordingly. For example, a customer may require: a discount on the products being purchased, insurance, or the establishment of an escrow fund. A company may limit its indemnification liability by negotiating a cap or by narrowing the scope of the indemnification.

Hewlett-Packard, Novell, and Red Hat offer indemnification plans to their customers that purchase open source operating system subscriptions in order to protect their customers against copyright infringement claims.[77] Such indemnification programs may be funded through a variety of vehicles, including a single or group insurance captive. There are also initiatives to offer commercially available open source indemnification insurance.[78]

Companies should also carefully craft an open source software policy in line with products and services, revenue models, and the culture of the software developers and programmers.[79] Suggestions include adoption of a more restrictive policy limiting the inclusion of open source if a company's business model is based on proprietary sales revenue models where source code is not provided in order to avoid potential violation of the GPL.[80] Even if your company is not in the business of selling software products, your company should implement a policy prohibiting employees from downloading freeware, shareware, or open source software onto company computers unless the license terms can first be cleared with the legal department.[81]

Regarding the risk of inadvertently using another company's trade secrets or inadvertent infringement of another company's IP, the human resources department should work closely with both U.S. and foreign counsel to develop employment policies and procedures, as well as employment agreements. For example, it is important to receive complete work history, including consulting, from potential employees or consultants, and to communicate your company's policies concerning trade secrets brought in to your company. In addition, policies regarding copyright infringement are key—especially if your company is a software developer or provider.

(continued)

Commercial insurance options for IP infringement liability are limited, as illustrated in Section IV.C.4 below. Regarding the availability of patent infringement liability coverage, markets such as IPISC will write patent infringement coverage for single products for up to $2 million in limits, with some exceptions. Swiss Re may offer catastrophic patent infringement coverage above a $25 million retention, if the insured has an established relationship with and purchases other lines of coverage from Swiss Re. AIG may offer similar coverage in very limited circumstances. Other insurers, such as The Hartford Specialty and Ambridge Partners, may write deal-specific patent infringement coverage. As a deal facilitation tool, AIG and other carriers may buy out existing patent litigation. Coverage for trade secret misappropriation is generally not available because of the difficulty in quantifying the risk. However, alternative risk financing vehicles, such as captives, are another option.

3. **Exposure 5**—Any entities involved in the capture and development of IP, including research and higher education institutions, should establish and implement policies and procedures for ensuring that employees, consultants, faculty, and researchers:

- execute invention assignments;
- understand the inventive process and who should be identified as the inventor on a patent application or a creator or contributor to development of software code or other forms of copyrightable material; and
- understand and comply with confidentiality requirements.

Effective and thorough IP due diligence policies and procedures for merger and acquisition, investment activities, licensing negotiations, and joint development agreements are key. The IP due diligence process should include identifying all IP, verifying ownership of such assets, and ensuring that such assets are unencumbered.[82] Contractual provisions in license and joint development agreements should be clear as to which entity owns which IP going in to the relationship and how IP ownership will be defined during and at the termination of the relationship. In appropriate circumstances, investors or purchasers may require title insurance to protect their investment.

4. **Summary of Intellectual Property Insurance Options**—The IP insurance market is an early stage insurance market, even though IP insurance has been offered in various forms since the mid-1990s. Because IP risk—especially third-party patent infringement liability risk—is difficult to underwrite, underwriting methodologies are still developing, as are policy forms and the submission and claims processes. Therefore, such policies are typically manuscripted and require a fair amount of negotiation.

While often offered as specialty line "named peril" coverage, some IP-related coverages may be available through multi-peril media policies, cyber liability policies, and professional services liability policies. For example, media liability insurance covers not only intellectual property injury but also defamation, unfair competition, and other torts. The availability of coverage through the advertising injury provision of general liability policies has been substantially narrowed and patent infringement coverage is usually expressly excluded. Pricing of IP insurance varies, with the

(continued)

premium ranging anywhere from 3-10 percent rate on line ($30,000-$100,000 per $1 million in limits). A diligence fee is frequently required as well.

a. Available Markets—The following table is a compilation of information on types of coverage available and the underwriters offering the coverage. Be aware, however, that the market is continuing to evolve. In order to receive the most up-to-date information about available markets and coverages, companies should work closely with an insurance broker knowledgeable about IP coverages.[83]

Types of Coverage	Available Markets	Other Options
1. Enforcement Litigation Costs (First Party Property Exposure) ■ Primary ■ Excess	■ IPiSC (MGA for XL Capital) up to $2M ■ IPISC, Ambridge, The Hartford	■ Contingency fee ■ IP Holding company ■ Investors ■ Captive
2. Loss of Position/Value/Revenue (First Party Expsoure)	■ Kiln (Lloyd's) (Primarily European coverage, but seeking to expand to US coiverage) ■ IPISC ■Swiss Re	
3. Infringement Costs of Defense (Third Party Liability Exposure) 4. Infringement Costs of Damages (Third Party Liability Expsoure)	■ AIG (at least $100M in revenue) ■ Chubb (very limited areas of coverage) ■ Venture Programs (MGA) (Lloyd's) (mainly European coverage) may no longer offer stand-alone patent coverage. ■ IPISC up to $2M ■ Swiss Re (primarily excess) ■ Certain Lloyd's syndicates ■ Allianz (Primarily German coverage ■ Quanta (on excess basis)	■ Captive ■ Some other form of self-insurance (reserves) ■ Indemnification
4. LBOFRS Capping of Litigation Costs and/or Damages (Third Party Known Liability Exposure)	■ AIG ■ The Hartford ■ Ambridge ■ Lloyd's?	■ Escrow ■ Letter of credit
5. Title: Title Impairment Costs, Legal Expenses (First Party Property & Third Party Liability Exposure)	■ Chubb ■ Lloyd's?	■ Captive ■ Some other form of self-insurance (reserves) ■ Escrow

b. What to Look For—In pursuing IP insurance, especially patent insurance, seek the most appropriate and tailored coverage. Know the coverage you are seeking, and why you believe such coverage is necessary. For example:

- What do you want to cover?
  - Peril 1: What types of litigation costs are covered, i.e., assertion of IP rights, defense against declaratory judgment actions, and standard counterclaims, such as invalidity, reexamination, or interference proceedings in the USPTO, arbitration, appeals? How is the IP to be defined and enforced? What IP is covered—identified patents only or including continuations and divisionals?

(continued)

—Peril 2: Is there a formula for how the lost licensing revenue will be discounted? Who provides the valuation of the IP?

—Perils 3 and 4: Do you want blanket coverage? Coverage of certain product lines? Only certain types of infringement? Is the purpose of the coverage to stand behind an indemnification provision? Is the coverage for both legal expenses and damages?

- Who do you want to cover? Depending on the nature of the transaction and the risk being covered, it may be important for the licensee, licensor, sublicensees, distributors, or customers to be insureds or additional insureds.

- What may not be covered (exclusions)? Fraudulent, willful, dishonest, or criminal acts are generally excluded, as are damages resulting from such acts; trade secret coverage is often excluded because it is so difficult to quantify.

- What about prior acts coverage? Several infringement policy forms do not cover prior acts. Note carefully how prior acts are defined because a broad prior acts exclusion can effectively gut coverage, especially coverage for patent infringement. Also, enforcement policies are sometimes limited to "no known infringement" coverage.

- Coverage territory: Depending on the nature of the transaction and on the IP involved, you may need coverage beyond the U.S. or coverage other than U.S. coverage.

- Claims made versus occurrence: Most IP policy forms are claims-made.

- Claims process: Note carefully what "claim" is defined to include. Also, make sure the policy is clear about how coverage is "triggered." For example, for enforcement policies, the insured's counsel may need to provide claims charts, and the insurer may require some type of evaluation of the claims. For defensive policies, the insurer may require an opinion of non-infringement. As with the underwriting process, certain safeguards should be put into place to protect the information being provided.

- Selection of counsel: In many cases, the insured selects counsel, although selection may be limited to selection from an approved panel or to counsel meeting certain criteria. Alternately, selection may be subject to insurer approval.

- Settlement consent: In many cases, the insurer cannot settle without the insured's consent.

Most importantly, be "risk-transfer-ready." While insurers may still be refining their underwriting methodologies, they have learned the questions to ask, and their application forms will include the types of questions and requests for supporting documentation such as the items identified in Section IV of this paper.[84]

(continued)

V. Conclusion

As globalization breaks down barriers of language, nationality, and distance, opportunities to maximize IP value increase. As ever-increasing numbers of people and companies gain access to proprietary ideas through partnerships, vendor relationships, consulting contracts, and other relationships, organizations need a plan to protect themselves. IP risk management is an inter- and multi-disciplinary, collaborative approach to informed decision making and improved communication among all parts of an enterprise. Organizations that undertake IP risk management to obtain a realistic understanding of their IP risk profiles and to proactively manage their risk will gain a competitive advantage.

The Marsh Advantage

The Risk Consulting Practice at Marsh collaborates with clients to develop solutions and services that reduce the likelihood of risk – diminish its impact if it does materialize – even help you leverage the opportunities it often reveals. We focus on the following critical areas:

- Business Risk
- Claims and Litigation Risk
- Operational Risk
- Risk Technology
- Workforce Risk

For more information, please call us at 866-9AtRisk (866-928-7475), contact us via e-mail (At.Risk@marsh.com), or visit us at www.marshriskconsulting.com.

MA4-10926

Foot Notes:

[1] Davis, Julie L. & Harrison, Suzanne L., Edison in the Boardroom: How Leading Companies Realize Value From Their Intellectual Assets 2 (2001).

[2] Id.

[3] Id.

[4] Blair, Margaret M., Kochran, Thomas A., eds., The New Relationship: Human Capital in the American Corporation (Washington, D.C. Brookings Institute 2001) at 1; Edison at 5-7.

[5] Id.

[6] Patnews e-newsletter, patnews@ns1.patenting-art.com, August 16, 2004.

[7] Id.

[8] "AUTM Licensing Survey: FY 2002 Survey Summary" (Association of University Technology Managers).

[9] Id.

[10] Id. at 1.

[11] Taplin, Ruth, ed., Valuing Intellectual Property in Japan, Britain, and the United States, forward (2004).

[12] The IP laws of various countries differ; however, most countries recognize similar categories of legally protected intellectual assets.

[13] U.S. Const. Article I, Section 8, Clause 8; 35 USC § 101; Ferrell, John S., Protecting Your Techknowledgy: The Entrepreneur's Guide to Patents, Trademarks, Copyrights, and Trade Secrets (2003) at 8.

[14] U.S. Const. Article I, Section 8, Clause 8; 17 USC § 106; Techknowledgy at 8.

[15] Lanham Act, 15 USC §§ 1051 et seq. (protection may also be afforded under individual states' statutory and common law regarding trademarks).

[16] Uniform Trade Secret Act (This uniform law has been adopted as statutory law regarding trade secrets in many, but not all, states in the U.S.).

[17] Techknowledgy at 7; Friedman, Marc S., "Long Term Strategic IP Planning-Avoiding A Trap for the Unwary!-Parts I and II," The Metropolitan Corporate Counsel (October 2002).

[18] Techknowledgy at 7-8.

[19] From Ideas to Assets, Chapter 16 "The Economics of Patent Litigation" at 330 (filings in the European Patent Office increased 40% from 1990-1999).

[20] Id. at 330; Techknowledgy at 21.

[21] www.uspto.gov; From Ideas to Assets at 330.

[22] Kerr, William O. & Prakash-Canjels, Gauri, "Some Evidence of the Influence of Patent Law on Innovation and Technology," at 3 (Penta Advisory Services 2000); Quinn, Jr., Eugene R., "Using Alternative Dispute Resolution to Resolve Patent Litigation: A Survey of Patent Litigators," at 3 Marquette Intell. Prop. L. Rev. 7-8 (1999); "Survey Predicts More, Costlier IP Disputes in Future," Patent Strategy & Management (June 2000); Welcome Page, Patent Enforcement and Royalties Ltd.; Beutel, Phillip A., "Is the Tide Turning in Defendant's Favor? Evidence from Recent Judgments in Patent Cases," at 12 (NERA Dec. 2000); Berman, Bruce, ed., From Ideas to Assets - Investing Wisely in Intellectual Property, "The Economics of Patent Litigation" by Samson Vermont, Ch. 16 at 330.

[23] Rivette, Kevin & Kline, David, Rembrandts in the Attic: Unlocking the Hidden Value of Patents 4-6 (Harvard Business School Press 2000); Berman, Bruce, From Ideas to Assets - Investing Wisely in Intellectual Property, "The Economics of Patent Litigation" by Samson Vermont, Ch.16 at 331.

[24] Lexis Nexis™ CourtLink eAccess - Subject Matter Alert.

[25] Kerr, William O., Prakash-Canjels, Gauri, "Some Evidence of the Influence of Patent Law on Innovation and Technology at 3 (Penta Advisory Services 2000); Quinn, Jr., Eugene R., "Using Alternative Dispute Resolution to Resolve Patent Litigation: A Survey of Patent Litigators,"at 3 Marquette Intell. Prop. L. Rev. 7-8 (1999); "Survey Predicts More, Costlier IP Disputes in Future," Patent Strategy & Management (June 2000); From Ideas to Assets at 330.

[26] Kerr, William O. & Prakash-Canjels, Gauri, "Some Evidence of the Influence of Patent Law on Innovation and Technology," at 3 (Penta Advisory Services 2000); Quinn, Jr., Eugene R., "Using Alternative Dispute Resolution to Resolve Patent Litigation: A Survey of Patent Litigators," at 3 Marquette Intell. Prop. L. Rev. 7-8 (1999); "Survey Predicts More, Costlier IP Disputes in Future," Patent Strategy & Management (June 2000); Welcome Page, Patent Enforcement and Royalties Ltd., http://www.pearlltd.com; Beutel, Phillip A., "Is the Tide Turning in Defendant's Favor? Evidence from Recent Judgments in Patent Cases," at 12 (NERA Dec. 2000); Berman, Bruce, ed., From Ideas to Assets - Investing Wisely in Intellectual Property, "The Economics of Patent Litigation" by Samson Vermont, Ch. 16 at 330.

[27] Moore, Kimberly A., "Judges, Juries, and Patent Cases-An Empirical Peek Inside the Black Box," Mich. L. Rev. No. 2, November 2000; Berman, Bruce, From Ideas to Assets - Investing Wisely in Intellectual Property, "The Economics of Patent Litigation" by Samson Vermont, Ch. 16 at 328.

[28] Ferraro, Joseph, Bock, Joel N., & Kwalwasser, Charles S., "'Markman' Survey", New York Law Journal -May 13, 2002.

[29] 35 USC §§ 111, 262.

[30] Nakamura v. Nichia (won $180 million); Yonezawa v. Hitachi (won $1.5 million); both cases are discussed at PATNEWS (February 10, 2004).

[31] From Ideas to Assets at 332; Techknowledgy at 33.

[32] Id.

[33] Edison at 16.

[34] 35 USC § 271(a).

[35] Lanham Act, 15 USC §§ 1051 et seq.

[36] 17 USC § 501(a).

[37] Uniform Trade Secret Act.

[38] "Symantec Granted $3.2 Million Judgment in Counterfeit Software Case", press release, www.symantec.com/press/2004/n040621a.html.

[39] AIPLA Report of the Economic Survey 2003.

[40] From Ideas to Assets at 334.

[41] Leander, Tom, "Does Microsoft Need China?", CFO.com Financial Software Newsletter, August 10, 2004.

[42] Id.

[43] 35 U.S.C. § 282; Monarch Knitting Mach. Corp. v. Sulzer Morat GmbH, 139 F.3d 877, 881 (Fed. Cir. 1998); Abbott Labs v. Geneva Pharmaceuticals, Inc., 182 F.3d 1315, 1318 (Fed. Cir. 1999), cert. denied, 528 U.S. 1078).

[44] http://www.ftc.gov/opa/2003/10/cpreport.htm.

[45] http://www.patentratings.com/002/chart_34.sv; Hershkowitz, Benjamin, "What Are My Chances? From Idea Through Litigation," www.findlaw.com.

[46] "Tough Road for Patent Busters" http://www.cnn.com, July 16, 2004.

[47] Getz, Richard D., Dever, Chad, "Patent Re-examinations on the Rise", Hartford Business Journal, April 19, 2004.

[48] USPTO OG Notices: 04 May 2004 Director Ordered Reexaminations, http://www.micropat.com/og /ogn200418/patreq1.htm.

[49] "FAQ on U.S. Patent 5,838,906 and the W3C, 10/30/03 Reexamination Order, http://www.w3.org/2003/09/public-faq; The USPTO has rejected claims 1-10 of the '906 Patent as obvious under 35 USC § 103(a). The patentee will have an opportunity to respond to the rejection. Office Action in Ex Parte Reexamination, Control No. 90/006,831 (August 15, 2004).

[50] Business Week, August 9, 2004; PATNEWS, patnews@ns1.patenting-art.com, August 16, 2004.

[51] From Ideas to Assets at 330.

[52] Cronin Fisk, Margaret, "Patent Victories Reflect 2000 Trend", National Law Journal, February 15, 2001.

[53] Knabb, Jennifer L, Jeffords, Michael J., "Trends in Patent Infringement Damages", IPL Newsletter (Spring 2003) at 22, 23.

[54] Id. at 27.

[55] Roberts, Paul, "Resignation, Hope Frame Microsoft Patent Deal", InfoWorld, http://www.infoworld.com/article/04/04/12/HNresign_1.html.

[56] Blasi, Robert S., "USTR Releases 2004 Report on Worldwide Intellectual Property Protection, Intellectual Property Observer: Developments in Technology and Intellectual Property Law, Testa, Hurwitz & Thibault, LLP (Summer 2004).

Foot Notes:

[57] First Annual BSA and IDC Global Software Piracy Study (July 2004).

[58] New York Times, January 21, 2004 at W1.

[59] Allison, John R., Lemley, Mark A., "Empirical Evidence on the Validity of Litigated Patents", 26 AIPLA Quarterly Journal at 185, 251 (Summer 1998).

[60] Edison at 39.

[61] Knorr-Bremse Systeme Fuer Nutzfahrazeuge GMBH v. Dana Corp. and Haldex Brake Products Corp., 01-1357, -1376, 02-1221, -1256 (The United States Court of Appeals for the Federal Circuit sat en banc and heard oral arguments in early 2004; the Federal Circuit decision and opinion is pending).

[62] Kerstetter, Jim, "Sun's Bum Rap on Open Source," Business Week, July 1, 2004; "HP Memo Forecasts MS Patent Attacks on Free Software", July 19, 2004, http://www.newsforge.com.

[63] Parloff, Roger, "Gunning for Linux", Fortune, May 17, 2004.

[64] "HP Memo Forecasts MS Patent Attacks on Free Software", July 19, 2004, http://www.newsforge.com.

[65] Nakamura v. Nichia (won $180 million); Yonezawa v. Hitachi (won $1.5 million); both cases are discussed at PATNEWS (February 10, 2004).

[66] Vertinsky, Liza, "Expanded Role of IP Audits in the Aftermath of Sarbanes-Oxley", IP Newswire, www.ipnewswire.com/articles/sox_audit.html.

[67] Id.

[68] http://www.ipisc.com.

[69] http://www.kilnplc.com/4continuity/index.asp.

[70] http://www.ustr.gov/reports/2004-301/special301.htm.

[71] "Microsoft cuts prices on SW bundles to fight piracy - Mexico", Business News Americas (August 23, 2004), http://businessbrowser.onesource.com/sharedscripts/text/getarticle.asp?id=FT_37409031.

[72] "Copyright Bill Needs Big Changes", Wired News (August 25, 2004), http://www.wired.com/news/politics/0,1283,64697,00.html.

[73] "Catch Them If You Can: Are You Doing Enough to Safeguard Your Intellectual Property?, The Kroll Global Survey on Corporate Response to IP Abuse, http://www.krollworldwide.com.

[74] http://www.jaguartc.com.

[75] For examples of how to integrate patent and product development processes, see Edison at 36-39.

[76] http://www.jnana.com, http://www.delphion.com, Edison at 38.

[77] Bannan, Karen, "Penguin Suits", CFO Magazine, June 29, 2004, http://www.cfo.com.

[78] http://www.osriskmanagement.com.

[79] Albert, Phil, "Practical Open Source Corporate Policies", LinuxInsider, May 11, 2004.

[80] Id.

[81] Webbink, Mark, Senior Vice President, General Counsel and Secretary, "Best Practices: Legal and Intellectual Property", http://www.redhat.com/solutions/best_practices/legal.html.

[82] ,Mary J., Klosek, Jacqueline, Goodwin Proctor, "Intellectual Property Due Diligence: A Critical Prerequisite to Capital Investment", http://www.findlaw.com.

[83] For example, Rick Betterley publishes an annual report on the state of the IP insurance market. Betterley, Richard S., CMC, The Betterley Report - Intellectual Property Insurance Market Survey 2004; Fewer Carriers and Some Interesting Alternatives (Betterley Risk Consultants, Inc., April 2004), http://www.betterley.com/products.html.

[84] Before applying for coverage and engaging in the application and submission process, a company may need to put certain safeguards in place to protect the information being provided.

Operations and Asset Management

Bio: *Kimberly K. Cauthorn Intellectual Asset Management*

Kimberly K. Cauthorn is Senior Vice President of the Intellectual Asset Management Practice at the Risk Consulting Practice at Marsh.

She joined Marsh in 2002 and has been assisting companies with intellectual property risk management. Prior to joining Marsh, Ms. Cauthorn was a Vice President with Litigation Risk Management, Inc., where she was primarily responsible for managing patent litigation, which included developing litigation budgets, litigation management methods and procedures, as well as selecting and coordinating with litigation counsel.

Ms. Cauthorn previously served as Vice President and Assistant Dean of External Services and an assistant professor at South Texas College of Law. Prior to her academic career, Ms. Cauthorn was in private practice as a commercial litigator. She began her legal career as an associate at Baker Botts, LLP. She received a B.A. with High Honors (Plan II and English Honors), graduating Phi Beta Kappa from the University of Texas at Austin in 1985. In 1988, she received her J.D. with Distinction from St. Mary's University School of Law, where she served as Articles Editor on the St. Mary's Law Journal. Ms. Cauthorn is a frequent speaker at conferences and at law firms, and has published several articles on the topic of intellectual property risk.

The Risk Consulting Practice at Marsh

Who's looking out for you?

(continued)

MARSH

The Marsh Advantage

The Risk Consulting Practice at Marsh collaborates with clients to develop solutions and services that reduce the likelihood of risk – diminish its impact if it does materialize – even help you leverage the opportunities it often reveals. We focus on the following critical areas:

- Business Risk
- Claims and Litigation Risk
- Operational Risk
- Risk Technology
- Workforce Risk

For more information, please call us at 866-9AtRisk (866-928-7475), contact us via e-mail (At.Risk@marsh.com), or visit us at www.marshriskconsulting.com.