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MBBI Newsletter January 2018 Are You Doing Enough to Protect and Monetize Your Intellectual Property?

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What I have learned is that accretion of IP value is the key element to supporting overall enterprise value.

Your tech-enabled business has valuable technology and intellectual property (IP) as part of your processes and the service, capabilities and products you provide.

This IP in what you and your contractors have created typically takes the form of software and computer code, and also may contain trade secrets and possibly patentable subject matter or inventions. Many companies underestimate the tremendous value their IP represents to their monetization strategy, as well as to a potential acquirer or growth capital investor.

What I have learned from many years of working with tech-enabled growth companies; on both sides of mergers and acquisitions; and angel, private equity and venture capital investments, is that accretion of IP value is the key element to supporting overall enterprise value -- representing scalability in phases of rapid growth and supporting attractive multiples during the fundraising and exit phases.

But, have you properly protected your IP from "leakage," and have you created monetization strategies that ensure customers pay for the parts of your IP they use? By being vigilant in incorporating proven best practices for key IP protection and monetization strategies, you can better ensure your business trajectory has favorable investment and exit outcomes.

1. Understand and prevent leakage: There is a push/pull between the IP developers who want everyone to use their IP, and the business side who want to maximize user payments. Leakage occurs when a company's poor policies for creation, access or usage of the IP technology allow others to unfairly or wrongfully use, benefit from or commercialize your IP or portions of the IP. The lack of technology and legal restrictions on use results in the "leak" to other organizations, past employees and contractors, and possibly competitors.

Expert tips:

- Licenses of your IP must establish tiered boundaries on use, prohibitions and service/license fees.
- Ensure contractors and employees are contractually bound by work made-for-hire and assignment of invention provisions in favor of your company.

2. Own your derivatives and derivative works: Many companies are not able to ascertain who owns the derivative work created with their IP technology. Simply put, ownership of derivative works is critical. If your customer agreement allows them to own enhancements to software or services of the IT technology platform you created, you may have established a roadblock to your growth and technology roadmap. This quickly becomes murky in customer contract negotiations.

Expert tip: When your large customer's procurement department says it must own all the technology created in your relationship, as well as enhancements to and development of that technology, it is time to call a well-seasoned licensing attorney to help you craft and negotiate customer license agreements and provisions that balance customer needs against possible leakage of your IP and your IP derivative works.

CONTINUED Page 2

Page | 1



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3. Get copyright protection: Your IP technology in the form of critical software and systems may be a copyrightable work that garners the protection of the copyright laws.

Expert tips:

- Timely and professional preparation and filing of a copyright registration on every significant version of that software will lock in statutory copyright remedies for your company.
- Mark in the platform, in the code of the platform and on the screen displays a form of a copyright notice including “©Year Company Name.”
- For major versions of your technology, get a non-infringement opinion from an experienced patent attorney to help avoid any liability for intentional infringement (including treble damages) if another company asserts pre-existing patent rights against you.

4. Take confidentiality very seriously and limit access to your IP: Access to valuable technology or processes requires protections and limitations. Ensure confidentiality agreements are put in place to prohibit unauthorized further use of this information by the viewer and reverse engineering. Employee and contractor use should be only for benefit of your company. Your IP technology users must understand that what they are accessing is protected by law, may be confidential and that access and use is restricted.

Expert tips:

- Mark all confidential materials with a “Confidential and Proprietary” stamp for hard copies and a watermark for “soft” copies. This applies not only to the technology itself, but also to strategic plans and product roadmaps around the technology.
- Create multiple levels of password-protected access based on the level of authorized viewership and use. Some companies’ “crown jewels” are accessible on the network by every employee!

5. Be mindful of copyleft agreements in your IP strategy: Many tech-enabled companies use open source software for customer-facing technologies as well as behind-the-scenes software. You can lose a (potential) customer by not understanding how, where and what open source code is used in your IP. Make sure your software subject to copyleft licenses are finite and bounded, so the company can demonstrate where free copyleft open source code versus software IP begins and ends.

Expert tip: Be ready to show how you have isolated the copyleft open source code so that it does not suck your code base into a derivative work that requires you share it with the entire world. For some of our clients, we have developed “open source code use protocols,” which can be an effective management tool.

6. Structure scalability and licensing protocols for your IP: A key element to fostering scale and growth is to ensure that, when you are deploying technology for use by others, you are not giving away more than is required, but that you are giving enough that allows customers to buy more. Deliver access for only the portions of the paid-for use of your technology needed now, and consider limited additional access/restrictions that allow the user to “grow” into additional use and payment opt-ins. You can limit usage in a wide variety of ways, including: number of users, scope of use, application, application type, business unit, transactions and even throughput (data rates of flow). As these scale, so should their payments to your business. Always position yourself to be able to say yes to additional and even enterprise-wide usage requests, and be firm in adding, “but there is an additional cost.”

Expert tip: Sunset clauses and support post-sunset should be specifically detailed and outlined in your support agreements. You do not want your best people tied up supporting yesterday’s technologies (and yesterday’s revenue model) instead of innovating new growth and platforms.

An ounce of strategic prevention is worth many pounds of cure.
Any tech-enabled company that intends at some point in the future to take growth investment or sell the company, will undergo a tremendous level of due diligence around their IP strategy and protections.

There will be literally teams of people - technology, legal and business experts - whose job it is to point out flaws of your technology and its protection. They are assessing investability, scalability and protectability, while relating these to monetary enterprise value and legal and business exposure you may be held responsible for post transaction - if the deal crosses the finish line. Each facet of the due diligence peels back another layer of the onion and raises further questions about risk. Your efforts now can solidify your future value proposition story for investment or exit and will be well worth it. *Copyright 2017 by Entrepreneur Media, Inc. All rights reserved.*
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Page | 2

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