Intellectual Property Asset Management

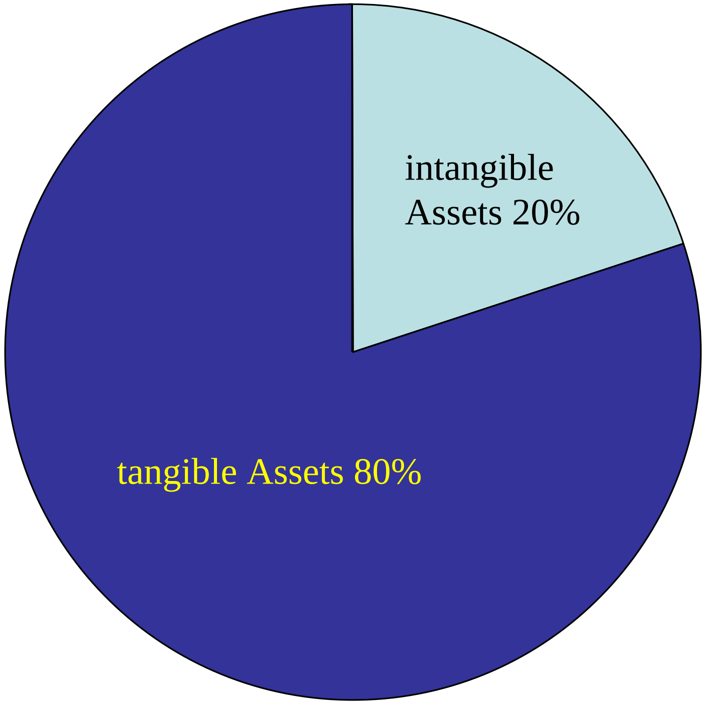
Tangible asset intensive to intangible asset intensive economy

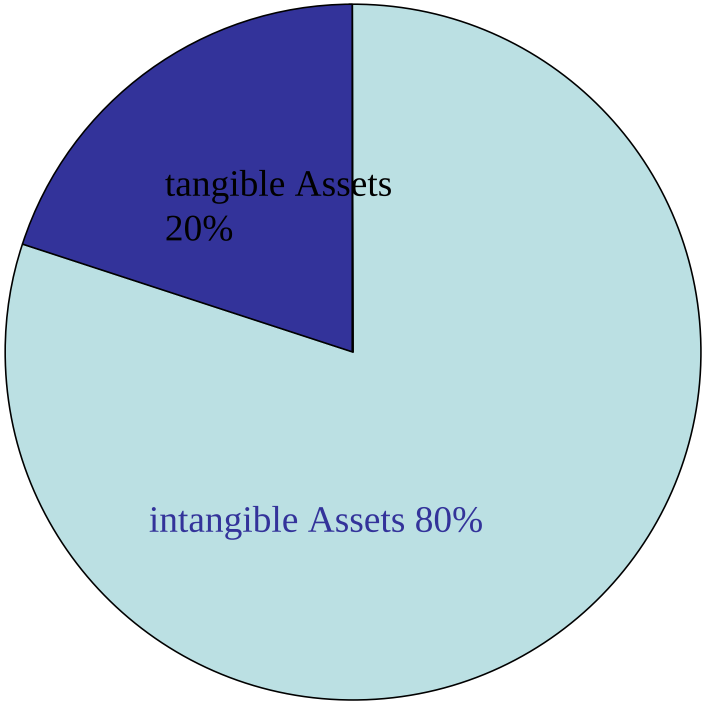
- Then a sellers market. The demand was greater than the supply. Consumers searched for products at the lowest possible price. Manufacturers concentrated on producing efficiently at the lowest possible cost
- Today a buyers market where the supply is greater than the demand. Consumers have a lot of choice. Price alone does not determine purchase but the best price for the best value.
- Companies need to create value for customers, shareholders and stake holders

Creating Value in the New Economy

- Low cost and the ability to produce efficiently is not enough. The competition is also able to produce as efficiently and at lower cost
- Customers are looking for added value, a differentiation from the competition other than on price.
- Intangible assets are the biggest value drivers in today’s economy

Knowledge Economy





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Intangible Assets

Marketing-related intangible assets

- (1) Trademarks, trade names, collective marks, certification marks
- (3) Trade dress (unique color, shape, or package design)
- (4) Newspaper mastheads
- (5) Internet domain names
- (6) Noncompetition agreements.

Customer-related intangible assets

- (1) Customer lists
- (2) Order or production backlog
- (3) Customer contracts and related customer relationships
- (4) Non contractual customer relationships.

Artistic-related intangible assets

- (1) Plays, operas, ballets
- (2) Books, magazines, newspapers, other literary works
- (3) Musical works; compositions, song lyrics, jingles
- (4) Pictures, photographs
- (5) Video and audiovisual material, including motion pictures, music videos, television programs.

Contract-based intangible assets

- (1) Licensing, royalty, standstill agreements
- (2) Advertising, construction, management, service or supply contracts
- (3) Lease agreements
- (4) Construction permits
- (5) Franchise agreements
- (6) Operating and broadcast rights
- (7) Use rights such as drilling, water, air, mineral, timber cutting, and route authorities
- (8) Servicing contracts such as mortgage servicing contracts
- (9) Employment contracts.

Technology-based intangible assets

- (1) Patented technology
- (2) Computer software and mask works
- (3) Unpatented technology
- (4) Databases, including title plants
- (5) Trade secrets, such as secret formulas, processes, recipes.

As per financial Accounting Standards Board

Intangible Assets

- Human capital: Employees' individual professional expertise and skills, social skills, entrepreneurial engagement, ability to innovate and respond to changes
- Relationship capital: Customer capital (brands, customer relationships, relationships with marketing and distribution partners etc.), other business partner capital (supplier relationships / supplier network, contract manufacturers etc.), and relationships with investors and banks/financial service firms and with other important stakeholders (such as environmental pressure groups in the oil industry)
- Structural capital: Business infrastructure/processes, working methods, information systems, databases, intellectual property (patents, copyrights, trademarks), organizational design, location advantages, corporate culture

Company	Market capitalisation ($ billion)	Net tangibles ($ billion)	Intangibles ($ billion)	Intangibles to market capitalisation (per cent)
Coca-Cola	151	7	144	95
Kellogg's	10	0.5	9.5	95
IBM	149	12	137	92
Pfizer	14	1.3	12.7	91
Disney	52	5	47	90
American Express	72	8	64	89
Microsoft	392	47	345	88
Telstra	69	8	61	88
Exxon	301	74	227	75
Nike	11	3	8	72

Source: Ch'ang S & Yastreboff, M, 'Catching Brand BandITs, *Software Engineering Australia Journal*, October 2002 based on data provided by Ernst & Young Australia, November 2001.

Simplistically put

- Knowledge that can be converted into profits
- The combined intangible assets which enable the company to function" or "the sum of human capital and structural capital"
- It's what makes a company worth more than the sum of its countable parts
- Intellectual property is a subset of intangible assets; those intangible assets that could be legally protected

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Intangible Asset Based Enterprise Management

- Do companies have an intangible asset perspective in enterprise management
- Do they understand what drives their value in the market place and how to harness those value drivers for greater competitiveness
- How do the tangible assets and intangible assets combine to create value; that is how do they transform inputs (tangible and intangible assets) into output (value added for customers, stake holders and share holders) and how do they strengthen these assets and produce new ones

Intellectual Property Audits

1. What is an IP audit
2. Why do an IP audit
3. When should an IP audit be done
4. Who should do an IP audit
5. How should an IP audit be done
6. The results of an audit

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1.What is an IP Audit?

- IP audit is a systematic review of the IP owned, used or acquired by a business so as to assess and manage risk, remedy problems and implement best practices in IP asset management.
- It involves undertaking a comprehensive review of a company's IP assets, related agreements, relevant policies and compliance procedures.

Importance of IP Assets

- The overall importance of IP assets to the business will have a bearing on the audit.
- Where IP assets are relatively unimportant to the nature of the business as a whole, it might be sufficient merely to confirm that registered IP rights are in good standing and are held in the name of the company.
- Where the company's principal assets are IP, it may be necessary to conduct a more thorough assessment of the company's IP portfolio and IP based activities.

2. Why do an IP audit

- Enables a company to identify its IP assets (as well as the IP of others it may be using)
- Make decisions with respect to those assets keeping in mind the business goals of the company;
    - How are they being used/should be used, exploited
    - Does it own rights to them or do others, what should be done to acquire rights (registration, licenses, assignments)
    - If rights are acquired are they/should they be maintained
    - are there any redundancies,
    - threats by others to those rights, infringements of others rights etc

3. When to do an IP audit

- General purpose IP Audit;
- Event driven IP audit;
- Limited purpose focused audits

General Purpose IP Audit

- Before establishing a new company.
  - It is always important for a start-up company to be aware of intangible assets it owns or needs to protect.
- When a business is considering implementing new policies, standards, or procedures relating to IP.
- When a business is considering implementing a new marketing approach or direction, or is planning a major reorganization of the company.
- When a new person becomes responsible for IP management

Event Driven IP Audit

- An “event driven” IP audit is often called IP due diligence when done to assess the value and risk of a target company’s IP assets.
- IP due diligence is a part of a comprehensive due diligence audit that is done to assess the financial, commercial and legal risks linked to a target company’s IP portfolio, typically before it is bought or invested in.
- It can provide detailed information that may affect the price or other key elements of a proposed transaction or even aborting the further consideration of the proposed transaction.

Event driven IP Audit

- Before entering into a financial transaction involving IP
- Buying or selling a division, product line
- Licensing
- Bankruptcy
- IP disputes
- Outsourcing

Limited purpose focused audit

- Personnel turnover
  - Before a major personnel turnover of in-house R&D or marketing staff, especially if they are disgruntled employees.
- Foreign IP filings
  - Before a company takes up an aggressive program of filing IP applications in other countries for entering a new market abroad or expanding overseas through off-shoring/outsourcing.
- Before having an Internet presence
  - helps it to identify the needs of e-commerce and registration of appropriate domain names, etc.
- Significant changes in IP law and practice
- Preparing for litigation
  - When considering or facing litigation, a company is required to show non-infringement, no access to the work, to complete or confirm the chain of title of the underlying IP rights or for otherwise completing the documentation of the relevant IP rights.

4. Who should perform an IP Audit?

- Company personnel (in-house counsel, management)
  - The audit team should include expertise in IP, the relevant technical areas, as well from other relevant areas of the company.
  - It should have a basic understanding of the product lines, the relevant business environment and the future plans of the company so that the audit remains focused on IP assets of maximum business relevance
- Outside counsel
  - Should have experience in technology involved
  - Should have experience procuring and managing IP rights
  - Should have experience obtaining remedies for legal defects found in audit

5. How to do an IP Audit?

- Define an audit plan
- Define a schedule for the audit
- Define responsibilities among the audit team

An Audit Plan

- Prepare a check list modified for the type and size of the company's business, IP laws, purpose and desired outcome of the audit
- Who does the company regularly interact, or intends to interact, with such as its employees, vendors, customers, consultants, independent contractors, joint venture partners, competitors, etc and what role does IP actually play, or would play, in these interactions?
- What documents, agreements does it have in place or intend to put in place. What is the role of IP in these documents
- The specific areas of the business to be covered
- Define the personnel to be interviewed
  - Attorneys, Brand managers/marketing, those responsible for websites, R & D Personnel (employment agreements and policies), Graphic designers
- Prepare questionnaire

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6. Auditing IP Assets

- Catalog of IP assets – identification and stock taking
- Ownership issues
    - Does the company own these assets?
    - Are there infringement issues (license/design around)?
    - has title been properly assigned by employees/consultants
    - Have rights been acquired, if not should they be (cost benefit analysis),
    - If they have been acquired are they been properly maintained, exploited and enforced
    - Are there restrictions to its use; territorial, time, non compete
    - How does it protect its confidential information, does it have a trade secret management program.

Auditing agreements

- Licensing agreements – are we in compliance, do we still need this
- Assignment agreements – have assignments been properly made
- Employment and independent contractor agreements – assignments, are they allowed to use any copyrighted materials or our trademarks, waiver of moral rights, disclosure of confidential information, non compete clauses
- Joint venture agreements – who owns IP created, who pays for protection, what happens when the JV ends
- Government funded R&D – does government own the IP produced
- Technology transfer, or know how, or technical assistance agreements
- Design and development agreements
- Settlement agreements
- Franchise agreements
- Royalty agreements
- Marketing agreements
- Distribution/Distributorship agreements

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Within each of these agreements, close attention should be paid to:

- IP provisions
- Representations and warranties
- Quality control, where applicable
- Restrictions on use, marketing, geographic area, etc
- Marking, advertising requirements
- Provisions surviving expiration/termination
- Duty to assign, to maintain trade secrets, non-compete
- Encumbrances in security agreements, financing statements,
- Title retention agreements, other documents creating a lien,
- Security interest or similar interest

Results of an IP audit – Catalog of IP Assets

- If rights have not been obtained decide whether patent, TM, design rights need to be applied for. TS protection, confidentiality clauses
- If rights have been obtained are they been maintained.
- If there are third party rights
  - Has there been infringement. Is litigation likely. What steps can be taken to prevent litigation.
  - Can licenses, assignments be obtained. If employee creations was it within the scope of their work.
- How can they be exploited in line with the goals of the company
- Are there other infringing your rights. What steps should be taken

Taking necessary steps for creating and maintaining IP assets

- An IP audit will reveal where there have been lapses in the administrative, legal and regulatory procedures necessary for creating and maintaining IP assets.

- An IP audit will provide the necessary impetus to take care of such requirements by creating or improving the relevant in-house policies, procedures and management practices.

Strategic issues

- What is the business strategy of the company? Does it follow a certain business model?
- Are these assets being properly managed and exploited within the strategic objectives of the company. Do they match the strategic business objectives of the company?
- A possible technique is to divide:
    - Techniques, innovations, and ideas that are essential to your products and services, and to the markets your company has decided to serve
    - Intellectual assets of real potential but not to your company
    - Assets' that seem, on balance, to have no great value to your company or to anyone else

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Business strategy formulation

- How would the assets that have been identified as essential to the business of the company be better utilized in marketing its goods and services in the relevant markets
- How would the assets with potential be used
- What would one do with the other `assets'
- The results of the IP audit may add a new dimension to its strategy discussions and may lead to new business strategies

From IP audit to IP asset management

- The audit team could evolve into a permanent IP asset management team overseen by a senior executive and charged with managing the knowledge portfolio. The team could be composed of managers from various disciplines who understand the firm’s intellectual assets.

- Create an IP culture – Respect for IP. Training on IP best practices for all staff. Training programs to include content on IP asset management.
- Review the existence and adequacy of IP asset management policies, procedures and practices within a company and verify that they are effectively communicated to all the employees.

Building value through IP management

- IP asset creation.
- Reducing costs of third-party IP claims.
- Creating non-core revenue streams.
- Creating additional revenue through core business licensing.
- Reducing costs of unused IP assets.
- Receiving tax deductions for IP asset donations.
- Reducing new product development costs
- Evaluating the IP assets of an acquisition or investment target (due diligence).
- Assessing business direction and strength.
- Discovering unclaimed business opportunities.
- Discovering business expansion opportunities

BENEFITS OF MANAGING IP

Improved accountability of resources

- Know what IP is owned
- Know what IP results from investment in research and development
- Know what IP is core, secondary or surplus to activities
- Cost-effectively protect IP on a timely basis to minimise risk of third-party abuse and inadvertent loss
- Assists with compliance in chief executive's duties
- Assists in more accurate reporting and cost-effectiveness of development costs and investment

Improved operational performance

- Enables more informed decision-making by management because of better understanding of what IP assets are owned, what is needed to operate and their IP value
- Enables more accurate internal and external financial reporting
- Enables sharing of significant and incremental innovations within an organisation (or the broader public service) and thereby minimises wastage of resources or duplication

Improved financial performance

- Unlocks hidden or under-performing value of IP
- Opportunity to generate cash from licensing or sale of non-earning IP
- Enables cost savings and increased revenue
- Enables valuation of IP and inclusion of IP assets on balance sheets

Improved risk management

- Preserves the opportunity to use and commercialise IP by minimising risk of failing to identify and protect IP on a timely basis
- Minimises risk of failing to renew IP assets protected by registration
- Minimises risk of legal action for infringing third-party IP. The risks include potential damages, legal costs and damaged reputation
- Minimises risk of disposing of IP that is necessary for the organisation's work

Source: Adapted from Ch'ang, S & Yastreboff, M, 'Discover your intellectual property assets' *Software Engineering Australia Journal*, August 2002, p.80.

Check List

- Do you know what Intellectual Property exists in your organisation?
- Is there an appropriate IP strategy aligned with business objectives?
- Is the ownership and control of IP assets clear?
- Are there effective policy, procedures, and processes in place for the ongoing identification, capture, ownership, control and leveraging of IP?
- Is the IP appropriately protected to enable the business to meet its objectives?
- Is the use of IP assets monitored?
- Are there mechanisms in place to detect infringement of IP – yours and others and take appropriate action?
- Is IP appropriately leveraged and exploited to add value to the business?
- Do employees know of the IP management mechanisms and utilise them?
- Are IP rights maintained – patents reviewed for breeches and contracts maintained?

Strategic IP audit process to support IP business plan

IP audit step	Understand business strategy	Identify IP assets	Categorise IP assets
Benefit to IP business plan	• Aligns IP strategy with business goals • Identifies key target markets, products and technologies	Assures all relevant IP assets are considered: • Patents • Trade secrets • Know how • Software • Trademarks • Licences • In-process R&D	Provides taxonomy to assess IP strength and strategic relevance by: • Product/service • Technology • Market

IP audit step	IP competitive assessment	Opportunity and risk assessment	IP processes and controls assessment
Benefit to IP business plan	• IP SWOT analysis • Assess competitor technology trajectories • Gap analysis	• Licensing/sale opportunities • Utilisation of IP across business units/products • Litigation risk • Make v buy	• IP best practices • Strategic patenting • Licensing compliance • IP metrics • IP managment efficiency

Intellectual Asset Management April/May 2007

Dow Chemicals

- Dow undertook a patent audit of the 29,000 patents that it owned. Each patent was classified as “using, will use and will not use”. Then decisions were made as to the value of the patents and what should be done about them.
- The result of the audit was that only 30 percent of Dow's patents at the time were of strategic value to Dow, while the others were expendable either as donations to collect tax deductions or to be sold or abandoned.
- Result = an instant savings of $50 m over a period of 10 years and an increase in annual license revenue from $25 m per year to $100m per year.

- IP PANORAMA Module 10 - IP Audit

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