



WORLD INTELLECTUAL PROPERTY ORGANIZATION

National Workshop on Intellectual Property Management in Business
for Small and Medium-Sized Enterprises (SMEs)

Conducting an IP Audit and Managing IP Assets

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IP and the Intangible Assets

Today Knowledge-based Economy where Intangible assets are the biggest value drivers

- Intellectual capital of an enterprise includes a portfolio of diverse **intangible assets** sharing some characteristics
 - Identifiable
 - Can be legally owned
 - Can be protected
 - Can have a quantified value
- **Definition:** “Things of value that are not tangible but can be measured and managed and to which a value may be attached” → **Intellectual Property Asset**

IP and the Market (Globalization): the offer is bigger than the demand.

True **innovators** are driven out of business by competitors with lower fixed costs.

The society's dilemma is to think of a **new** product or service increasing customers.

Understand your business by fixing milestones and resource constraints.

Develop an IP strategy

Do the risk-benefit and the cost-benefit analysis:

Return has to Outweigh Risk

To reveal areas of particular risk and **to better manage** the quantitative and qualitative value of **risk** related to a concrete situation and a recognized threat, an **IP Audit** shall be performed

What are the Objectives?

- Understand the concept and importance of an IP Audit.
- Know how to prepare for an IP Audit.
- Know the procedure for conducting an IP Audit.
- Know how to use the results of an IP Audit.

“Understand the problem, and you’ll understand the solution.”

How can we reach these Objectives?

1- Understanding an IP Audit

- Definition of an IP Audit
- Types of IP Audits

What is an IP Audit? And Why to do an IP Audit?

2- Preparing for an IP Audit

- Background research for preparing an audit plan
- Preparing an IP Audit plan

When should an IP Audit be done?

And

Who should do an IP Audit?

3- Conducting an IP Audit

- Starting with a detailed check list
- Auditing different contracts/agreements
- Auditing IP assets

How should an IP Audit be done?

4- After completing an IP Audit

- Using the results of an IP Audit
- From IP Audit to IP asset management

How to use the results of an IP Audit?

1- Understanding an IP Audit

A- Definition of IP Audit

- (1) Risk Management: IP Audit is a systematic review of the IP owned, used or acquired by an entity to assess and manage risk, remedy problems and implement best practices in IP asset management.

- (2) IP Audit involves a comprehensive review of a company's IP assets, related agreements, relevant policies and compliance procedures.

1- Understanding an IP Audit

- Why to do an IP Audit?

IP audit helps to make and update the inventory of the IP assets, and to analyze:

- How the IP assets are used or unused
- If the IP assets are owned by the company or by others
- If the IP assets infringe the rights of others or others are infringing on these rights
- What actions are required to be taken with respect to each IP asset, or a portfolio of such assets, to serve the relevant business goals of the company

1- Understanding an IP Audit

B- Type of IP Audit

Three situations where an IP Audit can be done:

- General purpose IP audit;
- Event driven IP audit ;
- Limited purpose focused IP audit.

1- Understanding an IP Audit

(1) General purpose IP Audit

a. A general or broad IP audit is done in the following types of contexts:

- Before establishing a start-up company to know the owned intangibles.
- When implementing new policies, standards, or procedures relating to IP.
- When implementing a new marketing approach or direction.
- When a new person becomes responsible for IP management.

b. IP audit is needed at regular intervals

Usually annual basis to review IP assets for appropriate decisions

1- Understanding an IP Audit

(2) Event driven IP Audit

- Is generally much narrower in scope than a broad or general purpose IP audit.
- It is often called “IP due diligence” when done to assess the value and risk of all or a part 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 benefits and risks linked to a target company’s IP portfolio, typically before it is bought or invested in.

1- Understanding an IP Audit

- IP due diligence provides 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.
- IP due diligence seeks to:
 - **Identify and locate IP assets**, and then assess the nature and scope of the IP to evaluate their benefits and associated risks .
 - **Identify problems** in and barriers to the transfer, hypothecation or securitization of the IP assets under consideration.

1- Understanding an IP Audit

- IP due diligence is done in the following types of contexts:
 - Merger & Acquisition or Joint Venture

It could lead to a significant increase in the value of the acquired company or the resulting merged entity. Or it may reduce the acquisition cost or lead to a cancellation of the acquisition process if the due diligence process reveals major IP risks or IP problems in the target company.

1- Understanding an IP Audit

- Financial transactions

Important before entering into a financial transaction involving IP (such as stock purchase)

- Buying or selling a business division or IP transfer

An IP due diligence should be done separately by both parties to ensure that the transfer or assignment meets both their respective business interests.

1- Understanding an IP Audit

- Launching a new product or service

Where there is a **high risk** of infringing IP rights of other.

- IP licensing

The **licensor** has to ensure that it actually owns the IP to be licensed.

The **licensee** has to ensure that the licensor has the necessary rights to the IP in question so as to legitimately transfer the rights.

1- Understanding an IP Audit

- Bankruptcy

An IP audit would also be appropriate as a planning tool in advance of any filings for bankruptcy, business closure, or elimination of significant lines of business.

1- Understanding an IP Audit

(3) Limited purpose focused audit

- Is much narrower in scope than the other two types and is performed under much constrained time schedules. It is used to justify a certain legal position or the valuation of a particular IP.
- A limited purpose focused audit is done in the following types of contexts:
 - Personnel turnover
Before a major personnel turnover of in-house R&D or marketing, especially if it involves disgruntled employees.

1- Understanding an IP Audit

- Foreign IP filings

Before entering a new market abroad or by licensing, franchising or merchandising

- Using the Internet for business purposes

Before having an Internet presence, doing an IP audit helps to identify the needs of e-commerce and registration of appropriate domain names, etc.

1- Understanding an IP Audit

- Significant changes in IP law and practice
- Preparing for litigation

When considering or facing litigation, a company is required to show non-infringement and complete or confirm the chain of title of the underlying IP rights

1- Understanding an IP Audit

- B- Who should perform an IP Audit?
- The IP Audit team should include expertise in IP and representatives of the relevant technical areas of the company.
- The IP Audit team should have a basic understanding of the product lines, the relevant business environment and the future plans of the company.
- The IP Audit team may include external expertise.
(➔ all external members in the audit team should sign non-disclosure/confidentiality agreements)

2- How to do an IP Audit

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

2- How to do an IP Audit

- **A clear purpose: Know why the audit is being conducted.**
- ➔ Thus, better know the amount of time and money available for conducting an audit will have a bearing on the manner in which the audit is conducted and its eventual outcome.

2- How to do an IP Audit

- **Background research for preparing an audit plan**

The second step is preparatory to understand the company: what it does and where it wants to go. → essential condition for preparing an audit plan.

2- How to do an IP Audit

- Background research includes:
 - Gathering as much information as possible on the company and its way of doing business.
 - The company internal and external relations and interactions.
 - Business strategy: How does the company do its business? Does it have written policies in place concerning key aspects of the business? Does it follow a certain business model? Does it engage in e-commerce...

2- How to do an IP Audit

- Importance of IP Assets:
 - If IP assets are 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.
 - If 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- How to do an IP Audit

- Status of IP management:

What is the company's overall approach to IP management?

Does it have an in-house IP manager or department and/or does it rely on outside IP expertise?

Does it have an IP policy or strategy?

How well informed are its staffs on IP matters?

2- How to do an IP Audit

- IP disputes

Has the company been involved in infringement suits, whether as plaintiffs or defendants?

Is the company involved in disputes or potential disputes that involve IP rights?

- Financing

Are the IP assets of the company tied to the financing of the company?

2- How to do an IP Audit

- **Preparing an IP Audit plan**

- This will set out the purpose, the scope, how long it is expected to take, the budget, and who will be responsible for which area of the audit plan.

- Generally, it will deal with the following:

The specific area(s) of the business to be covered - e.g., divisions, lines of business, affiliated or non-affiliated agency operations

The scope of the audit - e.g., only registered assets or a broader scope

The time table for the audit

The responsible person for each part of the audit

The form of the final audit report to be produced

3- Conducting an IP Audit

- Start with a detailed check list
 - An adapted check list to the **type and size** of the company's business, relevant **IP laws** of the relevant countries, desired **purpose(s)**, and the desired **outcome(s)** of the audit.

3- Conducting an IP Audit

- A good checklist minimizes the chances of leaving out one or more **relevant steps** from the process. Each member of the audit team should be provided the relevant part of the detailed checklist.

3- Conducting an IP 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, and what role does IP actually play, or would play, in these interactions.

3- Conducting an IP Audit

- What documents, agreements does it have in place or intend to put in place? What is the role of IP in these documents?
- Identify the decision-making process for each of the company's products and processes.

3- Conducting an IP Audit

- The specific areas of the business to be covered by the audit.
- List the personnel to be interviewed: Attorneys, Brand managers/marketing, webmasters, R&D Personnel, Graphic designers...
- List different contracts/agreements that concern the protection of IP.
- Prepare a questionnaire.

3- Conducting an IP Audit

- Auditing IP assets: 4 steps

A- Identifying and recording IP assets: Establishing a catalog of IP assets

Two consequences:

- It helps to update the intangible portfolio of the company.
- It will serve to inform on IP assets which may be used differently.

3- Conducting an IP Audit

B- Ownership issues

- Does the company own these assets? (sole or joint ownership)
- 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 being properly maintained, exploited and enforced?
- Are there restrictions to its use; territorial; time; non compete?
- How is confidential information protected? Is there a strong trade secret management program?

3- Conducting an IP Audit

C- Detecting infringement of IP rights

- Either by others on IP assets owned by the company
- Or by the company on any IP assets owned by others

D- Taking necessary steps for maintaining and creating IP assets

- Scrutinize the administrative and legal lapses for maintaining IP
- Improve the IP policies and IP management practices

3- Conducting an IP Audit

- **Auditing different contracts/agreements**
 - Licensing agreements: compliance with the terms? still need them?
 - Assignment agreements: have assignments been properly made
 - Employment and independent contractor agreements: IP assignments duly done/their scope; are they allowed to use any copyrighted materials or the company trademarks; waiver of moral rights (is it possible?); disclosure of confidential information; non compete clauses.
 - Joint venture agreements: who owns IP created? who pays for protection? what happens at the end of the JV?

3- Conducting an IP Audit

- Government funded R&D: does government own the IP produced
- Technology transfer, or know-how, or technical assistance agreements
- Design and development agreements
- Franchise agreements
- Royalty agreements
- Marketing agreements

3- Conducting an IP Audit

- Close attention should be paid to:
 - IP provisions
 - Representations and warranties;
 - Quality control, where applicable;
 - Restrictions on use, marketing, geographic area, etc.
 - Advertising requirements;
 - Provisions surviving expiration/termination;
 - Duty to assign, to maintain trade secrets, non-compete.

4- After completing an IP Audit

The results of the IP Audit will help to better analyze the IP assets and lead to a better IP asset management

A- Using the results: For 5 purposes

1- IP analysis

- Know whether the IP assets are serving the strategic objectives of the company and, if not, what should be done to change that.
- Do an IP inventory into three groups:
 - Essential innovations to your products and services, and to the company markets
 - Potential IP assets but not necessary to your company
 - 'Assets' that seem, on balance, to have no great value to your company or to anyone else.

4- After completing an IP Audit

2- Evaluating IP assets

Will help in valuing the benefits that may accrue from any IP asset:

- Know which a market values or devalues that type of asset
- Know the cost of developing alternative IP assets
- Know the royalties being paid for similar assets

4- After completing an IP Audit

3- Overall review on IP assets and IP policy

Will help the company manager to know whether the IP assets are being used to attain the company's strategic objectives:

- The management has to check if its business objectives, business model and its IP management policies are in alignment with each other.
- This can be identified by evaluating the benefits obtained by using IP assets.

4- After completing an IP Audit

4- Being prepared for litigation

- The IP audit will help in determining whether the company's use of its IP violates the rights of a third party.
- Advance warning of infringement allows the company to cease infringing activities, obtain a license or at the least, evaluate its liabilities and defenses.

4- After completing an IP Audit

5- Business strategy formulation

The IP audit will help the management to match the IP assets to the company strategic business objectives:

- The types of products or services on which the company intends to focus its resources
- The markets it intends to serve
- The return on investment it requires in order to satisfy its owner or shareholders.
- The results of the IP audit may lead to new business strategies for the domestic or export markets.

4- After completing an IP Audit

B- 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 entire knowledge portfolio.
- The team could be composed of managers from various disciplines who understand the firm's IP Assets.

4- After completing an IP Audit

- Create an IP culture and 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.

Conclusion

The IP Audit builds the value of the company

- **It creates an IP asset.**
- **Reduces costs of third-party IP claims.**
- **Creates non-core revenue streams.**
- **Creates additional revenue through core business licensing.**
- **Reduces costs of unused IP assets.**

- **Receiving tax deductions for IP asset donations.**
- **Reduces new product development costs**
- **Evaluates the IP assets of an acquisition or investment target (through a due diligence).**
- **Assesses business direction and strength.**
- **Discovering unclaimed business opportunities.**
- **Discovering business expansion opportunities.**



*“If you don’t measure it, you can’t
manage it”*

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Thank You

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