



IP Asset Management: IP Audit and Due Diligence

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Exploiting IP Assets

The rights can be exploited by -

- ◆ Selling;
- ◆ Licensing (including franchising and merchandising);
- ◆ Raising finance or funds (e.g. using IP assets as a collateral);
- ◆ Strategic partnerships (e.g. joint ventures and alliances to exploit the IP assets).

Purpose of exploiting IP Assets

- ◆ To improve revenue;
- ◆ To improve competitive advantage;
- ◆ To more fully exploit the IP assets;
- ◆ To extend the brand/brand image;
- ◆ To enhance business reputation;
- ◆ To raise finance/funds (e.g. using IP assets as a collateral to attract investors).

Meaning of “Asset Management”

- ◆ “Manage” = “handle”, “control”, “take charge of”, etc.

Meaning of “Asset Management”

- ◆ “Manage” = “handle”, “control”, “take charge of”, etc.
- ◆ To manage your IP assets in such a way that you are able to fully exploit the assets (e.g. sale, licence, raising finance, etc.) or to put you in a strategic advantage in an alliance (e.g. partnership or joint venture).

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.

Meaning of “Asset Management”

But, how do you achieve these benefits?



IP Audit and IP Due Diligence

IP Audit

1. What is an IP Audit ?
2. Why do an IP Audit ?
3. When is an IP Audit normally conducted ?
4. Who should do an IP Audit ?
5. How should an IP Audit be done ?
6. How to use the results of an IP Audit ?

1. What is an IP Audit?

An IP Audit is a systematic and comprehensive collection, collation, review and analysis by an entity of all its IP assets (owned or acquired, used or unused) so as

- To ascertain the overall value and worth of the entity (e.g. for valuation or to raise finance); or
- To assess and manage risks, remedy problems and implement best practices in IP asset management.

2. Why do an IP Audit?

- Enables the entity to identify its own IP assets (owned or acquired, used or unused) and make an inventory of the IP assets.
- Enables the entity to make decisions with respect to the IP assets, keeping in mind the business goals of the entity. Relevant questions include:

2. Why do an IP Audit?

- How are the IP assets being used/should be used, exploited, etc.?
- Does the entity own rights to the assets? If not, what should be done to acquire rights (e.g. by way of registration, licenses, assignments)
- If the rights are acquired, are/should they be maintained?
- Are there any threats by others to those rights (e.g. infringements of others rights, etc.)?

2. Why do an IP Audit?

- An IP Audit will also reveal whether there have been lapses/gaps in the administrative, legal and regulatory procedures necessary for creating, maintaining and exploiting IP assets and, if so, where;
- An IP Audit will help to rectify such lapses/gaps by creating or improving the relevant in-house policies, procedures and management practices.

3. Three types of IP Audit

- General purpose IP Audit;
- Event driven IP Audit;
- Limited purpose, focused IP Audit.

General Purpose IP Audit

- Before establishing a new entity (e.g. company):
 - It is always important for such a company to be aware of the IP assets that it intends to own or its partners already own.
- 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 executive becomes responsible for IP asset management in the company.

Event Driven IP Audit

- Before entering into a financial transaction (which also involves IP);
- Buying or selling a division or a product line;
- Licensing;
- Bankruptcy;
- IP disputes;
- Outsourcing.

Event Driven IP Audit

- An “event driven” IP Audit is also known as an 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.
- If done properly, IP due diligence can yield detailed information that may affect the price or other key elements of a proposed acquisition of the target company or even abort the proposed acquisition.

Limited purpose, focused IP Audit

- **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.
- **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 business of the company;
 - The audit team should have a basic understanding of the product lines, the relevant business environment and the future plans of the company so that the audit is focused on IP assets of maximum business relevance.

5. How to do an IP Audit?

- Define an audit plan;
- Determine a schedule for the audit;
- Specify responsibilities among the members of 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 –

Check List

- (1) Do you know what IP assets exists in your company?
- (2) Is the ownership of the IP assets unencumbered?
- (3) Do you have real and effective control of the IP assets?
- (4) Are there effective policies, procedures, and processes in place for the ongoing identification, capture, ownership, control and leveraging of the IP assets?

An Audit Plan

Check List

- (5) Are the IP assets appropriately leveraged and exploited to add value to the business?
- (6) Is the use of the IP assets monitored?
- (7) Are there mechanisms in place to detect infringement of your IP rights and take appropriate action?
- (8) Are IP rights properly maintained and recorded?
- (9) Do the employees know of the IP assets and rights and how they are to be managed and enforced?

An Audit Plan

Auditing IP Assets

- (1) Catalogue all the IP assets of the company – identification and stock taking;
- (2) Deal with the ownership issues –
 - Does the company own these assets?
 - Has title been properly assigned/licensed by consultants/others?
 - Have rights been acquired? If not, should there be cost/benefit analysis?
 - Are there infringement issues?

An Audit Plan

Auditing IP Assets

- If the IP assets have been properly acquired, are they being properly maintained, exploited and enforced?
- Are there restrictions to the use of the assets - territorial, time, non-compete?
- How is confidential information protected? Is there a robust trade secret management program?

An Audit Plan

Auditing Agreements

- Licensing agreements
- Assignment agreements
- Employment agreements
- Independent contractor agreements (*issues, e.g. 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?*)

An Audit Plan

Auditing Agreements

- Technology transfer, or know how, or technical assistance agreements
- Design and development agreements
- Settlement agreements with infringers
- Franchise agreements
- Licence and royalty agreements
- Marketing agreements
- Distribution/Distributorship agreements

An Audit Plan

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

- IP provisions;
- Representations and warranties;
- Quality control;
- Restrictions on use in relation to marketing, geographical area, products, etc.;
- Marketing, promotional and advertising requirements/restrictions;
- Provisions surviving expiration/termination;
- Duty to assign, to maintain trade secrets, non-compete;
- Encumbrances in security agreements, financing statements;
- Title retention, lien, grant-back;
- Security interests.

An Audit Plan

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 in line with the strategic objectives of the company? Do they match the strategic business objectives of the company?

An Audit Plan

Strategic Issues

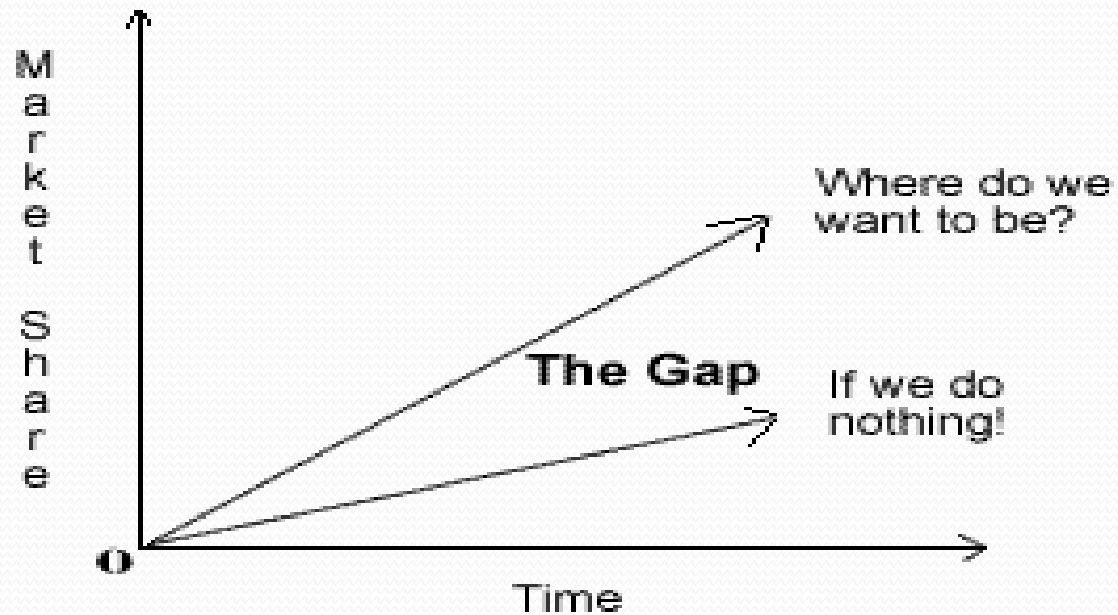
- A possible way to categorize IP Assets into:
 - IP Assets essential to your current and future products, and to serve the markets your company serves or plans to serve in the future;
 - IP Assets of real potential but not to your company;
 - IP Assets that seem, on balance, to have no great value to your company but maybe to anyone else.

An Audit Plan

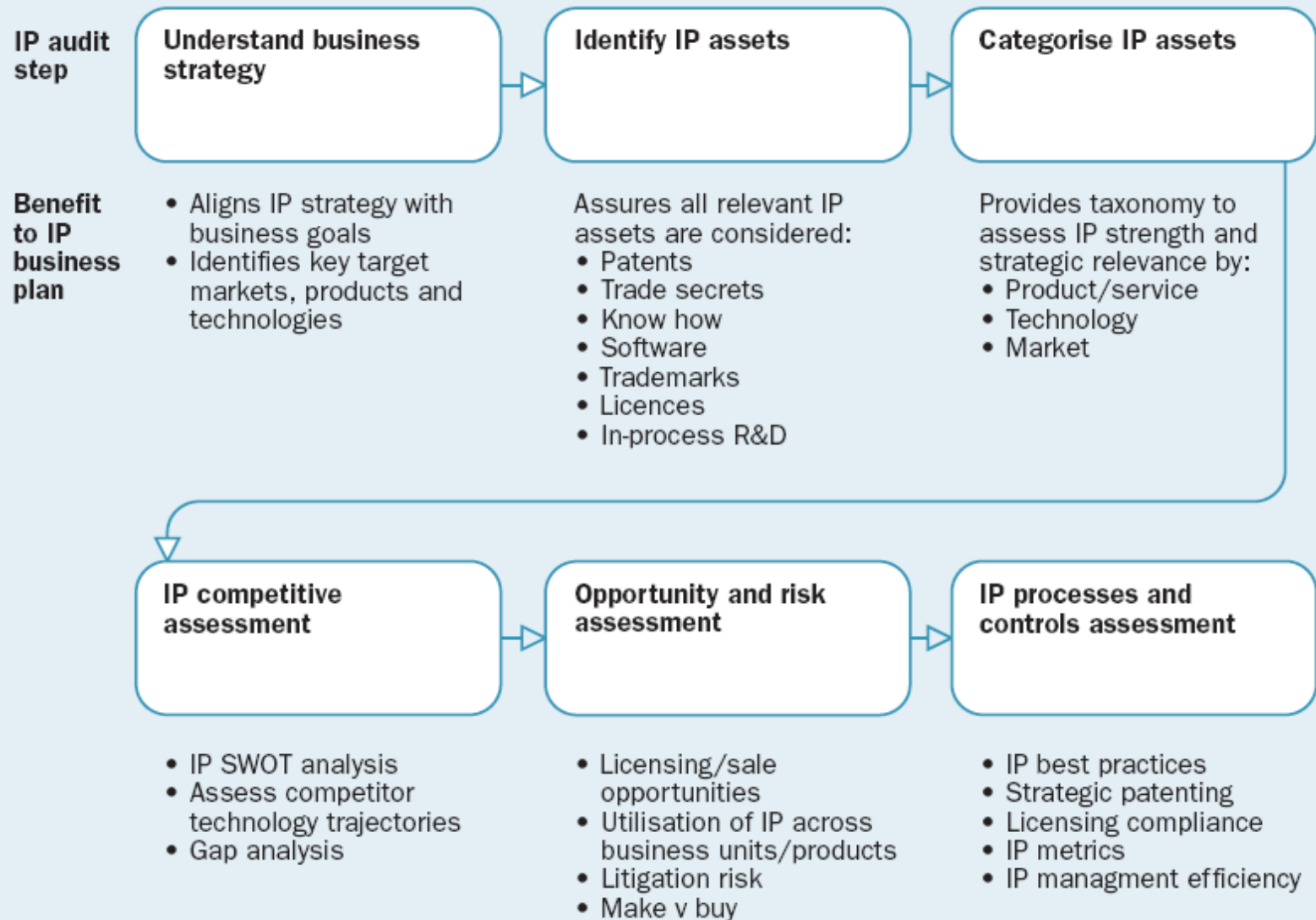
Strategy Formulation

- How would the IP 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 should the IP assets with real potential be used/exploited?
- What would one do with the other “assets”?

Gap Analysis



Strategic IP audit process to support IP business plan



SWOT ANALYSIS



Strengths - characteristics of a business that give it an advantage over others

Weaknesses (or Limitations): characteristics that place the business at a competitive disadvantage relative to others

Opportunities: *external* chances to improve performance (e.g. make greater profits) in the relevant market

Threats: *external* elements in the market that can cause trouble for the business



The results of an IP Audit may add a new dimension to the company's business and can lead to new business opportunities



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