

Why Audit your IP rights?

Tracing and identifying IP rights in organisations

Why Audit your IP rights?

1. IP rights are key business assets
2. Identify and value IP rights in organization
3. Reduce risks associated with IP rights

IP Audit – Aims and benefits

- IP Audit: Systematic review of IP owned and/or used by a company
- Common estimate that 84% of the worth of value of the S&P 500 companies lies in intangible assets, including IP-rights
 - ➔ *protect key assets!*
- Turn your IP into cash: McKinsey estimates, that 10% of a company's patent portfolio could be brought to market, generating additional income of 5-10%
 - ➔ *generate extra income!*
- The IP strategy is an important part of the overall strategic management
 - ➔ *Make the best use of your key assets!*

IP Rights Are Key Assets

- Build strong IP-Portfolio:
 - valuable IP: go on a treasure hunt for all in your company that could be used as IP. (trends: patents in the service industry, dispute about patentability of business methods and computer programs)
 - Effective processes to capture, perfect, use and protect IP assets in order not to lose ground to competitors. Make sure all key assets are valid and enforceable in the relevant markets.
 - Let competitors know that you enforce IP-rights, protect your company from unauthorized use
 - Build awareness of IP issues: IP should be topic in many transactions

- Assess and eliminate weaknesses of IP-Portfolio:
 - IP Audit is not only what you have but also what you should have
 - possible infringements: IP disputes can cost you dearly
 - lack of protection for key products: exposure to copycats
 - unnecessary and costly IP: weed them out and save money

IP Rights Can Generate Extra Income

- Generate Income out of IP-portfolio
 - Assess possible applications and potential value of your IP for other users
 - Licensing opportunities, sale of IP not needed in own company
 - Let infringers pay royalties or turn them into customers/partners
 - Use markets for IP: several companies (e.g. BTG British Technology Group) combine and market IP from various sources. The price and market IP like a property and combine portfolios of different companies.
 - Use of IP as collateral for loans, securitization. Clearly established IP-rights provide better securities for investors and banks.
 - „Signalling Theory“: start-ups building patent portfolios but do not actively enforce it. The main value is to attract investors.

IP Rights Help You Save Taxes

- Save taxes using your IP-portfolio
 - International tax planning in groups of companies is an important driver of IP audits: IP-rights are key in transfer pricing strategies, cost-sharing agreements etc. In order to fulfill all documentation requirement you need valid and established IP-rights.
 - Possible strategy: IP-branch in low-tax area is very common with companies that produce a lot of IP (e.g. Switzerland is very accomodating to such IP-branches).

IP Rights Are Part of Strategy

- Make the best use of your IP
 - Protect your investments in R&D
 - IP-rights can give the company an important competitive advantage in a market
 - Evaluation of IP-rights can show unclaimed business opportunities
 - IP can support entire brands or divisions of products/services („Harry Potter“ books, movies, merchandising articles)
 - According to the overall strategic needs you need to formulate your IP strategy and decide where to invest / divest / out-license / inlicense / publish IP

When should an IP Audit be undertaken?

- Normal course of business
 - IP rich industry: Early formulation of IP Strategy
 - Development of new product where tangible risk of infringement
 - Periodic assessment
- Sale or acquisition
 - Acquisition / Sale of company: full IP Audit
 - Acquisition / Sale of individual IP Assets: limited Audit
- Enforcing or defending IP rights
 - To assess potential impact of litigation – narrow scope
 - Prior to decision to introduce proceedings

Process-focused assessment

- Goal: identify & document IP in an organization
- Review IP Policy
- Educate employees
- Ensure proper documentation / keep „Innovation Logbook“
- Review contractual practice, for example
 - Employment contracts
 - Work-for-hire agreements (Software developers, external authors etc.)
 - Outsourcing agreements
- Take different national laws into account

Product-focused assessment

- Product fully protected?
- Ensure „multi-dimensional“ protection:
 - Product patent
 - Procedural patent
 - Design protected?
 - Software documented – all rights with company?
 - Trademark strategy for individual product that may outlive patent protection?

Rights/asset focused assessment I

- **Validity of rights**
 - registered rights: formal requirements, renewal
 - unregistered and unchecked rights: requirements for protection
 - term of protection
 - scope for invalidity claims
- **Ownership**
 - Employee inventions or works
 - freelancers
 - licenses

Rights/asset focused assessment II

- Scope
 - international protection
 - demarcation agreements
 - other existing rights, prior art
 - limited licenses

- Burdens such as liens etc.

- Infringement issues
 - Infringement of third party rights
 - infringement by third parties

Why valuation of IP is important

- Establish price
 - sale of company
 - sale of IP asset such as patent or trademark
- Calculating license fees
- Calculating internal transfer prices for IP
- Provide security for lenders
- Calculate damages in cases of infringement
- setting up reserves in cases of third party claims

Basel II

- Independent from formal securitization, credit will be given on basis of rating
- rating decision will be materially dependent of valuation of IP, especially where young companies in IP-rich industries are concerned
- Internal valuation serves as guidance for bank
- Internal IP Audit provides better basis for external rating
- Possible weaknesses in IP Portfolio may be proactively compensated

Reducing risks

- IP Audit cornerstone of proactive IP Strategy aimed at deriving maximum benefit while reducing risks
- Identify potential infringement issues
- Potential validity challenges
- Potential ownership challenges
- If possible take steps prior to marketing
 - to minimize exposure
 - to minimize cost associated with remedy (licences obtained, assignment of freelancers etc.)
 - to allow for alternatives if remedy not available or obtainable

Formulate/Revise IP strategy

- Result: Awareness of portfolio
- Assess relevance of IP rights for core business
 - Can IP be turned into cash-generating products?
 - If not: Can rights be licensed within foreseeable future?
 - If not: Should rights be upheld for strategic reasons?
 - If not: abandon rights to save fees
- Close gaps in Portfolio
 - Obtain licenses
 - Register derivative rights

Thank You For Your Attention!

■ Contact details:

■ Dr. Paul Peyrot, LL.M.

Beethovenstrasse 47, 8002 Zürich / Switzerland, paul.peyrot@peyrot-schlegel.ch

■ Dirk Wieddekind

Am Sandtorkai 41, D-20457 Hamburg / Germany, d.wieddekind@taylorwessing.com