

WIPO Training of Trainers Program on
Effective Intellectual Property Asset Management by
Small and Medium-Sized Enterprises (SMEs)

IP Audit and Management

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Discussion points

What is IP Audit

What are the types of assets in an organization

What are the Types of IP audits

What to consider before starting the IP audit

How to perform an IP Audit

From IP Audit to Intellectual Asset Management

Conclusion



What is an Intellectual property Audit

- **Intellectual property:** the legal rights which result from intellectual activity in the industrial, scientific, literary and artistic fields.
- **Audit:** An audit is an official inspection of an individual's, entity's or organization's accounts, typically by an independent body or firm



What is an Intellectual Property Audit (contd.)



- **Basic IP audit** seeks information on health and well-being of patents, trademarks and copyrights (usually registered) owned by a particular entity.
- **Audits include** the review of existing world wide patents and patent applications, trademark applications and registrations, and all copyright registrations (including such properties owned by subsidiaries and affiliates).
- **Review seeks** to confirm that all statutory requirements for maintaining such patents, applications and registrations have been met.

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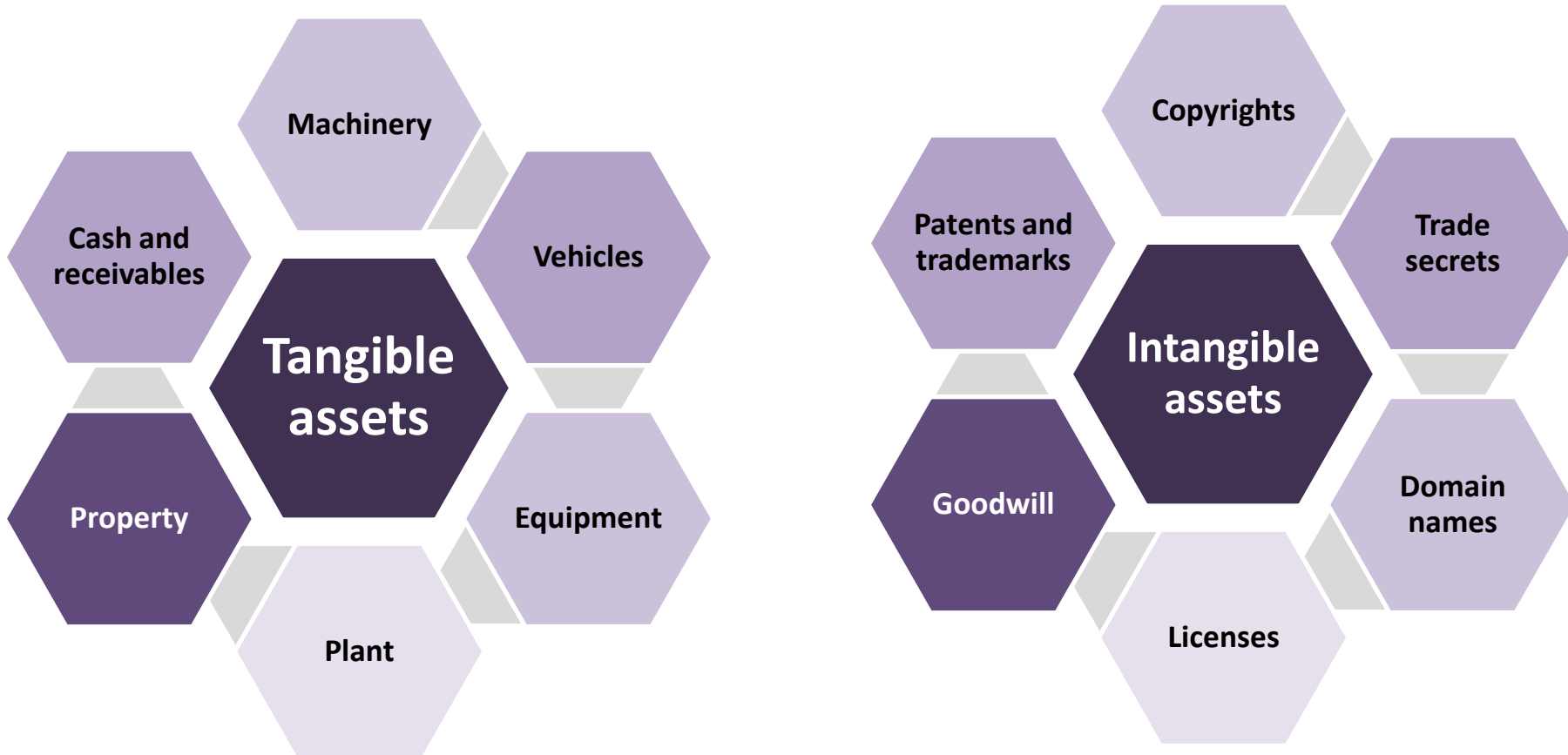
How to perform an IP Audit

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Types of Assets



Types of Assets contd.

A companies most important assets are intangible:

- company name
- brands
- Symbols
- Slogans
- Underlying associations
- Perceived quality
- Name awareness
- Customer base
- Proprietary resources such as patents, trademarks and channel relationships.

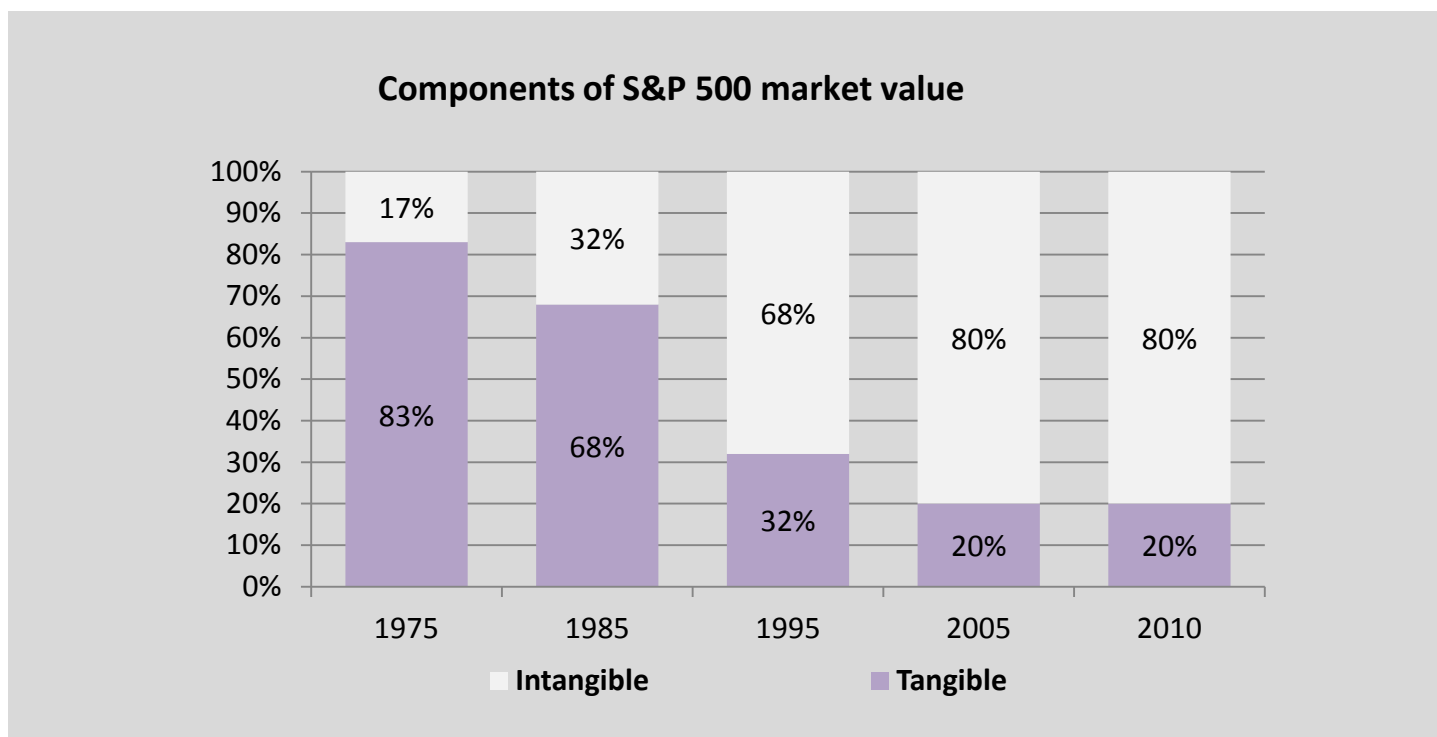


Types of Assets contd.





The importance of Intangible assets can be clearly observed in this example: *The purchase price of the shirt on the left will be much lower than the shirt on the right side.*



Types of Assets contd







Types of Assets contd

| |  |  |  |  |
|--------------------|---|--|---|---|
| Total Assets | 86,174 | 78,327 | 93,798 | 108,768 |
| Total Liabilities | 53,006 | 34,240 | 22,083 | 85,935 |
| Total Equity | 33,168 | 44,087 | 71,715 | 22,833 |
| Intangible Assets | 27,337 | 33,018 | 18,010 | 35,584 |
| Tangible Net Worth | 5,831 | 11,069 | 53,705 | (12,751) |
| Brand Value | 77,839 | 22,126 | 69,726 | 26,087 |

Source: SEC 10-K Filings, Interbrand

Types of Assets contd.

| |  |  |  |  |
|--------------------|---|--|---|---|
| Total Assets | 91,759 | 74,638 | 35,387 | 119,213 |
| Total Liabilities | 40,458 | 52,239 | 20,093 | 100,229 |
| Total Equity | 51,301 | 22,399 | 15,294 | 18,984 |
| Intangible Assets | 18,957 | 33,496 | 2,804 | 33,034 |
| Tangible Net Worth | 32,344 | -11,097 | 12,490 | -14,050 |
| Brand Value | 27,197 | 16,594 | 40,062 | 75,532 |

Source: SEC 10-K Filings, Interbrand

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What are the types of IP Audits

- **Intellectual property** (“IP”) audit comes in many shapes and sizes
- The length, extensiveness, and depth of an **Audit** depends on the reasons behind conducting the audit and the goals of such an audit from a business and legal standpoint



What are the types of IP Audits contd.

**There
are
three
types of
IP
Audits:**

General purpose IP Audit

1. General IP maintenance and control
2. Health and wellbeing of IP assets
3. Review statutory requirements for maintaining patent and trademark applications

Event driven IP Audit

1. Referred to as IP due diligence. Conducted by a 3rd party before an IP portfolio is bought or invested in.
2. Provides information that may affect key elements of a proposed transaction .

Limited purpose IP Audit

1. Upon Significant changes in IP law and practice
2. Prior to extensive foreign IP filings
3. Preparing for litigation
4. Prior to a re-branding/major marketing campaign

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What to consider before the audit

- 
- What is the objective of the audit?
 - What are the risks related to the IP assets owned by the organization?
 - What is the budget available for conducting the IP audit?
 - What are the resources available for completing the audit?
 - What is the time available for completing the audit?
 - Can the business divisions, subsidiaries and groups call on the legal division's IP department to get accurate reports for their specific IP?
 - Who is the team that will conduct the audit and do they have the required expertise?
 - How well do the company management know their IP assets?

What to consider before the audit contd.

- 
- An audit should look to the future
 - May involve prioritizing IP assets
 - Consider core product categories
 - Consider cost/benefit of maintaining world – wide portfolios.
 - Confirm whether statutory requirements met.
 - Review substantive file histories.
 - Organize fundamental information regarding IP status and title

What to consider before the audit contd.

- 
- How well owned intangible assets are defined and known?
 - Is it possible to issue a report to management, if requested?
 - Are obsolete assets and/or useless maintained?
 - How much is the expenditure related to Intellectual property?
 - Do all product lines have some form of IP protection?
 - Is technology leveraged for possible licensing opportunities?
 - Is there an IP software to manage the IP?
 - Are there accurate statistics related to IP?.

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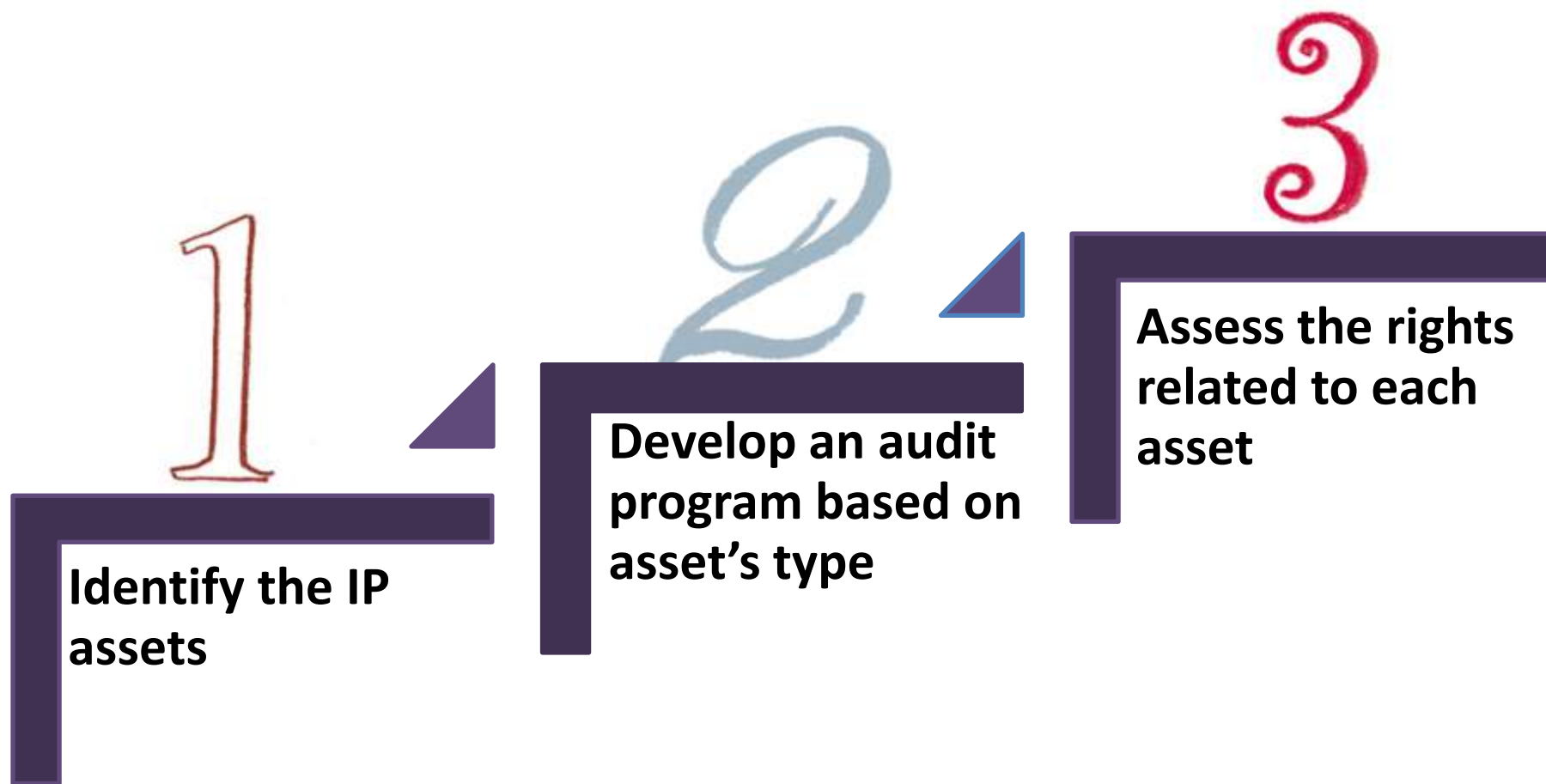
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How to perform an IP Audit – The three step approach



1

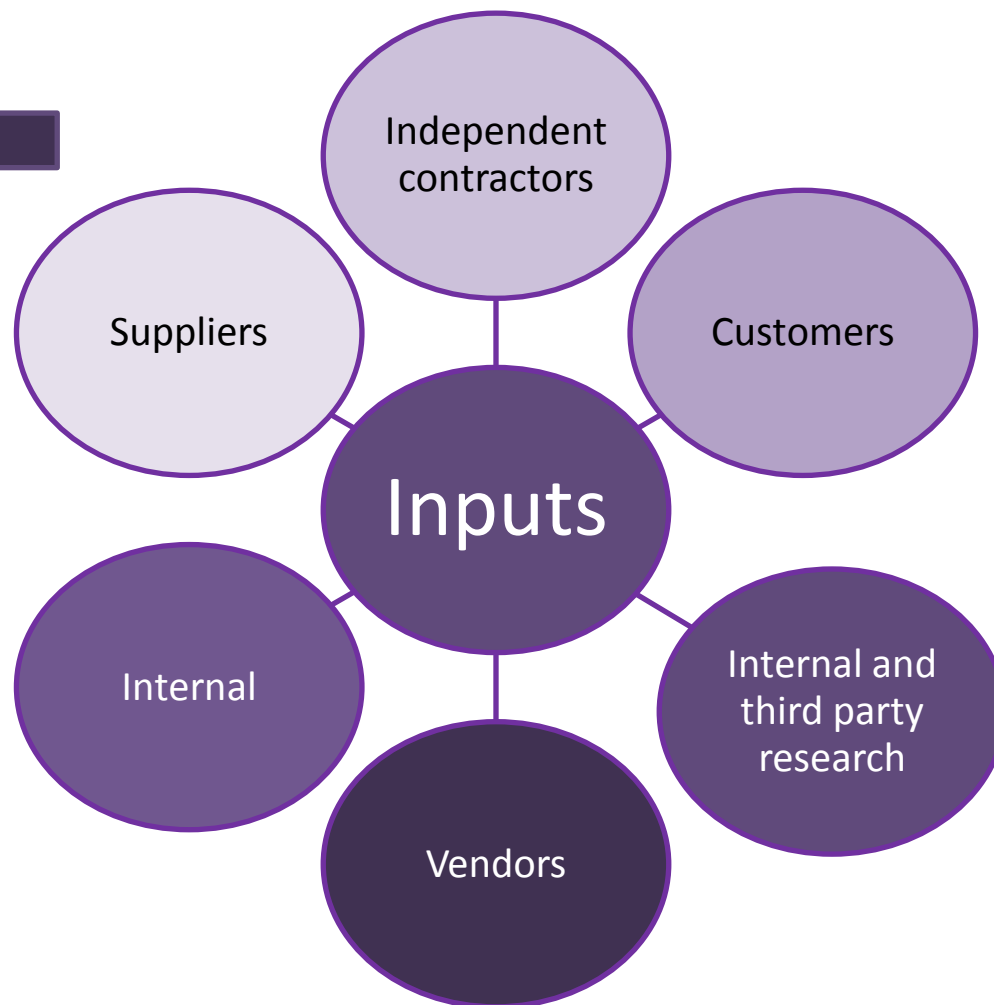
How to perform an IP Audit – Step - 1

Identify the IP assets

- Divide the company operations into different parts:
 - Inputs
 - Resources and processes
 - Outputs

1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets



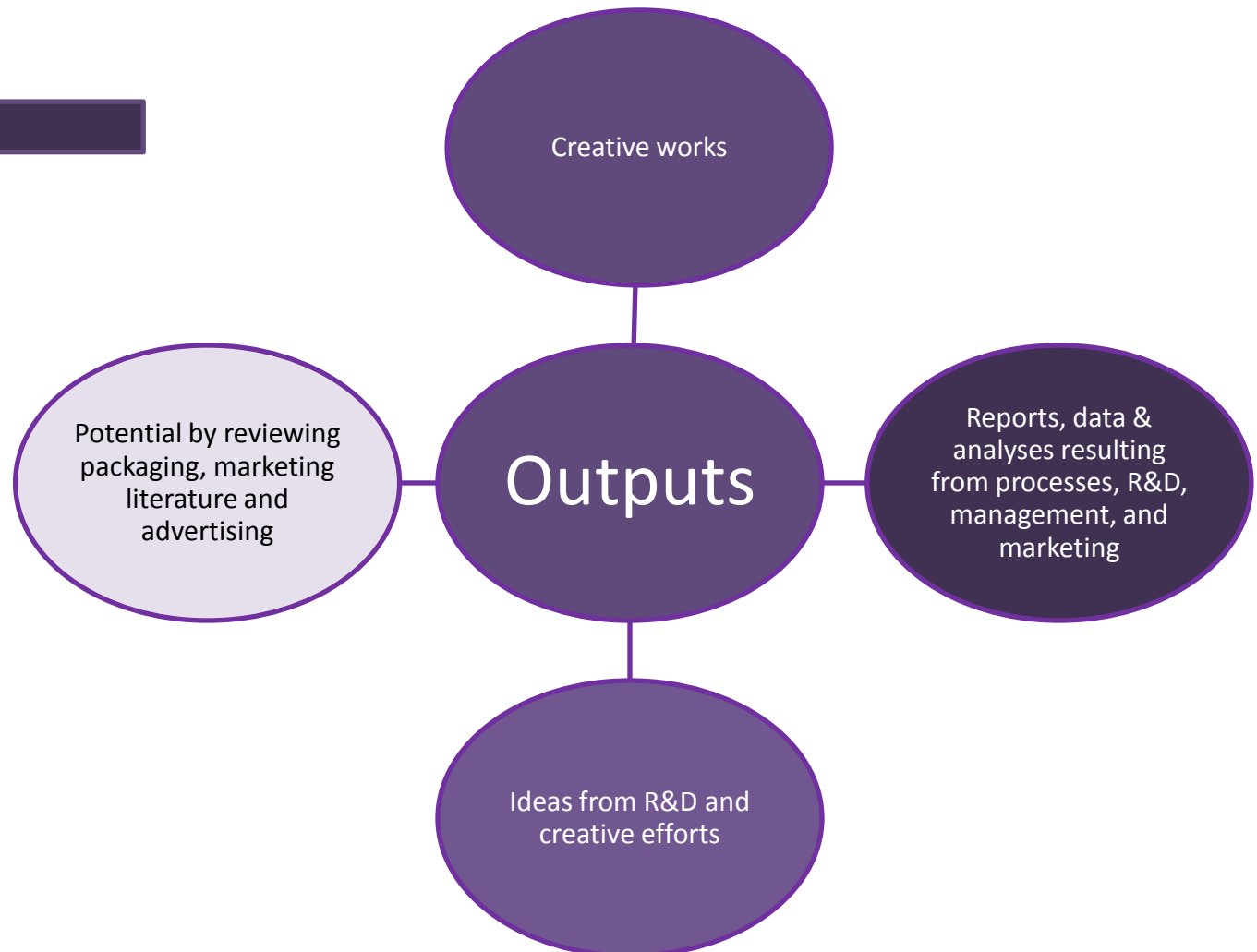
1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets



1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets



1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets

- Classify intellectual property into different types:
 - Trade Secret
 - Copyright
 - Trademark & Trade Dress
 - Patent (Utility & Design)

1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets

– Trade Secret:

- Is it generally known or readily ascertainable?
- Is it a subject of reasonable efforts to maintain secrecy and mostly does it have any commercial value?
- If this information was publically disclosed to one person, may it destroy the secret?
- Is this information available through reverse engineering, independent development, and public materials?.

1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets

– Copyright

- Is it a fixed and original work of authorship?
- Is the work original?
- Is the subject of the copyright useful pictorial, with a function that is inextricably intertwined such that the utilitarian aspects of the design are not physically or conceptually separable from the artistic expression.

1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets

– Trademark & Trade Dress

- Is it a distinctive source used on goods or services?
- Can the product packaging be inherently distinctive, in trade dress, product design always requires established secondary meaning to gain protection.

1 How to perform an IP Audit – Step – 1 contd.

Identify the IP assets

- Patent (Utility & Design)
 - Is it a new, non-obvious, and useful idea?
 - Is it a new, original, and ornamental design for an article of manufacture?
 - Is it a distinct and new variety of plant that the inventor or discoverer has asexually reproduced?.



How to perform an IP Audit – Step 2

Develop an audit program

Based on the objective of the audit, and the goals behind it, the team conducting the audit should identify documents related to intellectual property, and develop a tailored audit program depending on the type of documents available, type of assets, and inherent risks in the business.

- Identification of the Documents Relating to Intellectual Property.
 - Identify all agreements between the Company and any third party
 - Identify Filings and Registrations
 - Identify any other documents relating to IP rights



How to perform an IP Audit – Step 2

Develop an audit program

The program should cover:

- A. Status and Title
- B. Strategic IP Maintenance
- C. Substantive file history
- D. Agreements
- E. Trade Secrets & Confidential Information
- F. Litigation/ Potential Litigation
- G. IP notices and Marketing
- H. Proper trade mark use
- I. Use and search of third parties trademarks
- J. Hidden IP Assets
- K. Under performing IP Assets





How to perform an IP Audit – Step 2

Develop an audit program

A. Status and Title

- How well are owned intangible assets defined and known?
- Is it possible to issue a report to management, if requested?
- Are obsolete assets and/or useless maintained?
- How much is the expenditure related to Intellectual property?
- Do all product lines have some form of IP protection?
- Is technology leveraged for possible licensing opportunities
- Is there an IP software to manage the IP?
- Are there accurate statistics related to IP?.





How to perform an IP Audit – Step 2

Develop an audit program

B. Strategic IP Maintenance

- Are file retention policies in place and implemented?
- Age the original official registration certificates, patent letters, and other official original IP documents safely stored?
- Are they in a fire safe room?
- How uniform are the IP files?
- Future costs and actions needed to continue such IP in force
- Prioritize existing IP assets (according to core products and markets) .





How to perform an IP Audit – Step 2

Develop an audit program

C. Substantive file history

How well are IP rights enforced :

- Is it known who is infringing the IP?
- Is it known who to contact when an infringement occurs?
- Did infringers stop infringing after oppositions or litigation?
- Is there an adequate watch service in places to monitor IP? If so, is it cost effective to watch?
- Are there policies and guidelines to assist in deciding whether or not to file for new patents, trademarks, copyrights, and domain names, or is filing conducted upon request?





How to perform an IP Audit – Step 2

Develop an audit program

C. Substantive file history

- Analyze pending patents, trademark applications in order to:
 - Provide insight on the strength and enforceability of patent and trademark registrations.
 - Pinpoint any problems encountered and/or overcome during prosecution.
 - Reveal any limitations that maybe inherent in patent ,trade mark registration.

(e.g inventor ship issues, mistakes in claims, registration as issued does not match what was applied for, disclaimed, amended, etc.).





How to perform an IP Audit – Step 2

Develop an audit program

D. Agreements

- Is the company in compliance with all IP agreements?
- Do inter-company licensing agreements conform to tax laws and other specific laws?
- Were all incoming agreements from acquisition/divestitures assignable to the new owner?
- Is it known when the confidentiality term expires for agreements?
- When were agreement templates reviewed?
- Do agreement templates need to be updated?





How to perform an IP Audit – Step 2

Develop an audit program

D. Agreements

- Do trademark licenses include quality control provisions?
- Do trademark licenses include other provisions by which the trademark owner retains control over use of the mark?
- Are licenses/assignments in compliance with legal requirements?
- Review whether licenses and assignments were or should have been recorded in the applicable patent and trademark offices.
- Review to ensure appropriate confidentiality and ownership provisions are applied on existing employees, distributors, consultants





How to perform an IP Audit – Step 2

Develop an audit program

D. Agreements

- All trademark assignments include goodwill associated with the mark, and all assigned property are classified by mark and registration or application number.
- Audit should confirm that an entity's use of any licenses-in IP assets complies with all requirements of the license, including any restrictions, royalty payments, reporting, quality control provisions, marketing provisions, or other limitations.





How to perform an IP Audit – Step 2

Develop an audit program

E. Trade Secrets & Confidential Information

- What information is still bound by secrecy provisions and what isn't?
- How is confidential information safeguarded?
- Are there confidential information on a website or internal system that doesn't belong there?
- Are confidential documents marked "Confidential" when sent to third parties?
- Who keeps track of confidential information?





How to perform an IP Audit – Step 2

Develop an audit program

E. Trade Secrets & Confidential Information

- Can information be identified and segregated between information that is bound by secrecy provisions and information that is not?
- Are confidential information posted in places it shouldn't be?
- Are confidential documents marked “confidential” and is it covered?
- Are safeguards in place for confidential information?.





How to perform an IP Audit – Step 2

Develop an audit program

F. Litigation/ Potential Litigation

- Who is the owner of the IP assets?
- What is the current corporate structure?
- Did the corporate structure change (mergers, dissolutions, etc.) to affect IP ownership?
- Are there any examination of legal challenges or enforcement actions related to IP.
- Are there any Identified issues with respect to the company's ability to enforce its IP rights





How to perform an IP Audit – Step 2

Develop an audit program

F. Litigation/ Potential Litigation

- What are the risks associated with continued or expanded use of IP.
- Review the status and merits of any challenges relating to the IP; including cease and desist letters, license offers, and litigations.
- Determine the extent of use by third party's of companies' IP to identify threats resulting from long-standing acquiescence to such activities.
- Audit should determine whether the entity adequately regulates its IP so that rights are not weakened or lost due to acquiescence to third party infringers.





How to perform an IP Audit – Step 2

Develop an audit program

G. IP notices and Marketing

- Is everyone correctly using © for copyrights ® for registered marks TM or SM for trademark and service mark respectively. Correctly in print, on the website or any other electronic format?
- Review company's products, product labels, advertising, sales literature or other materials for proper statutory patent marking and trademark and copyright notices.
- Consider whether statutory notices are being used properly .
- Review placing patent numbers on covered products.





How to perform an IP Audit – Step 2

Develop an audit program

H. Proper trade mark use

- Are trademarks properly used in all print and on the website as well as any electronic format?
- Are there proper trademarks coverage for product lines?
- Is there a consistent use of the trademarks that enhances rather than detracts the strength of the mark?
- Is trademarked term used properly as an adjective, accompanied by the generic name of the goods?





How to perform an IP Audit – Step 2

Develop an audit program

H. Proper trade mark use

- Is the use of the mark connected with goods and services it registered under?
- Is use consistent with registered form?
- Is the trademark used is registered in the various countries it is used in to avoid any failure of use where necessary.
- Is the current use of the mark identical to the form in which the mark was registered?
- Does the form in which the mark is currently used constitute a material alteration of the registered form of the mark?
- Should additional trademark registrations, amendments or other corrective actions be considered?.





How to perform an IP Audit – Step 2

Develop an audit program

I. Use and search of third parties trademarks

- Conduct a search of third party patents or trademarks related to technologies or goods with strategic importance to the company.
- Third party marks with priority vis-à-vis the company's trademarks
- Third party infringements that the company should address.



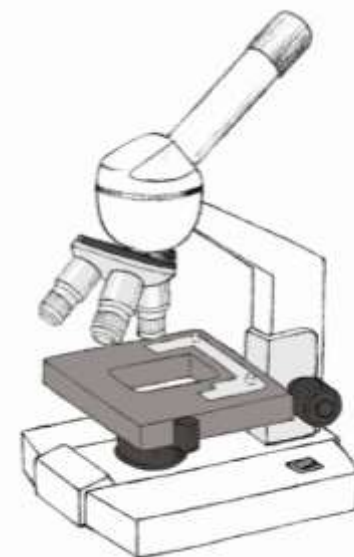


How to perform an IP Audit – Step 2

Develop an audit program

J. Hidden IP Assets

- Many entities may own patents and trademarks that they do not even know they have.
- Assets may be related to tangible products or assets that are not easily identified.
- The company's list of IP assets should be examined for products that should be patented or registered.
- Consider whether the company has built up protectable rights in less "traditional" trademarks such as; colors, color combinations, trade dress, product configurations, sounds, or smells.





How to perform an IP Audit – Step 2

Develop an audit program

K. Under performing IP Assets

- IP audit can improve underperforming IP assets that could be revitalized, sold to third parties, or abandoned entirely.
- Revitalization can either be done in-house, or by selling the assets to a third party that specializes in selling or licensing IP properties or re-launching older brands, Auctions of patent properties are becoming popular.



How to perform an IP Audit – Step 3

3

Assess the rights • related to each asset

Based on the audit program developed, conduct the audit by each subtype of IP assets. The methods for conducting the audit can include but are not limited to:

- Interviews of management and technical staff
- Questionnaire to all employees who use or develop IP
- Physical inspection of employee workspaces
- Observation of building security procedures
- Inspection of handbooks, policy manuals and other guidance documents
- Searches of databases including TMO, PTO, other search databases, including google patents, google, DogPile, Copyright Office.
- Market visits in order to check local products in the market and the consistency with protected marks.

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Human capital: The most valuable asset a business has, is the talents and skills of its people.

Intellectual Capital:

Unique and distinctive intangible aspects of a business where the value of the businesses reside. This can include innovations, brand identity, design image, technical information, procedures, techniques, trade secrets, contracts and reputation.

Intellectual Property:

the legally-protectable subset of Intellectual Assets.

From IP audit to IP asset management

Formation of IP asset management team

IP Asset management team is charged with **managing the knowledge portfolio, creating policies, procedures and best practices for IP asset management**. This team should be **overseen by a senior executive**. The team is composed of managers from **various disciplines** who collectively understand the firm's intellectual assets and have had a hand in developing them

Creating IP culture

The IP Asset management team should help create an **IP culture** within an organization, that **values IP assets**, and **highlights IP best practices**. This culture would be enhanced and promoted through staff trainings, manuals, events, and **regular communication**

IP policy monitoring

The IP asset management team should **continuously** review and monitor the **existence** and **adequacy** of IP asset management policies, procedures and practices within a company, and should verify that these policies are properly communicated to all employees

IP Audit can be used as a base for IP asset management, in order to identify:

Business and IP strategy:

1. Assess business direction and strategy;
2. Discovering unclaimed business opportunities;
3. Reducing new product development costs.

**How to increase
enterprise value:**

1. Creation of IP assets;
2. Building the value of existing IP assets;
3. Building value from different product markets;
4. Building value through corporate transactions.

IP Audit can be used as a base for IP asset management, in order to:

Increase revenues:

1. Creating non-core revenue streams;
2. Creating additional revenue through licensing or franchising;
3. Discover business expansion opportunities;
4. Discover unclaimed business opportunities.

Decrease expenses:

1. Reducing costs of third-party IP claims;
2. Reducing costs of unused IP assets;
3. When applicable, receiving tax deductions for IP asset donations;
4. Reducing new product development costs.

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Wrapping up

- **IP Audit** suites number of business and legal goals.
- **IP Audit** has different forms, and different audits cater to different goals.
- **IP Audit** helps in value creation.
- **IP Audit** helps in strategy setting.
- **IP Audit** helps in revenue generation.
- **IP Audit** helps in cost cutting.
- **IP Audit** is vital to safeguard IP assets.

Thank you!

