

IP Audit and finance

**Facilitating Access to Intellectual Property Rights (IPRs) and
Its Role in Enhancing the Competitiveness of
Small and Medium-Sized Enterprises (SMEs)**

**Beirut, January 28 and 29, 2013
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Topics

1. what is IP Audit.
2. IP Audit: Objectives & Types of IP Audit?
3. Steps on IP Audit.
4. Auditing agreements.
5. What is IP Finance?
6. traditional IP financing tools.
7. Methods of Valuing.

What of IP Audits?

IP audit is an inspection and review of IP

Owned
من يملك الحق

Used and
Unused
مستخدم

Acquired
مكتسب

Management
الادارة

Maintenance
المحافظة

Exploitation
الاستغلال

Enforcement
انفاذ الحقوق

WHAT of IP Audit Review of:

- company's IP assets
- all Agreements
- relevant policies

What is an Intellectual Property Audit?

- Assessment of the intangible assets .
- helps to quantify the value of the intangible assets to the extent that such value depends on the legal right to those assets.
- Examines and evaluates the strengths and weaknesses in the procedures used to protect each intangible asset and secure appropriate intellectual property rights.
- Provides tools and processes to help minimize issues involving third party rights.

Kinds of Assets

Tangible resources

- building
- Raw material
- Machinery

financial resources

- Shares
- stocks

● Intangible

Goodwill

Intellectual Property

1- Patent

2- copyright

3- Trademark

4-Trade secret

5- Licenses

The intangible assets may be used to generate more returns in the business than the tangible asset

IP Assets



information used in one's business that gives an advantage over competitors



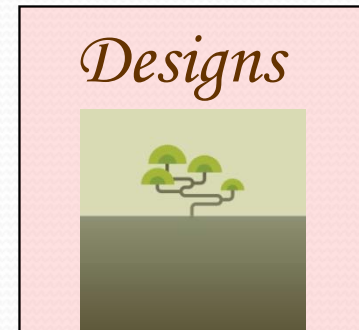
Distinctive signs between identical or similar goods



Any new and useful process,

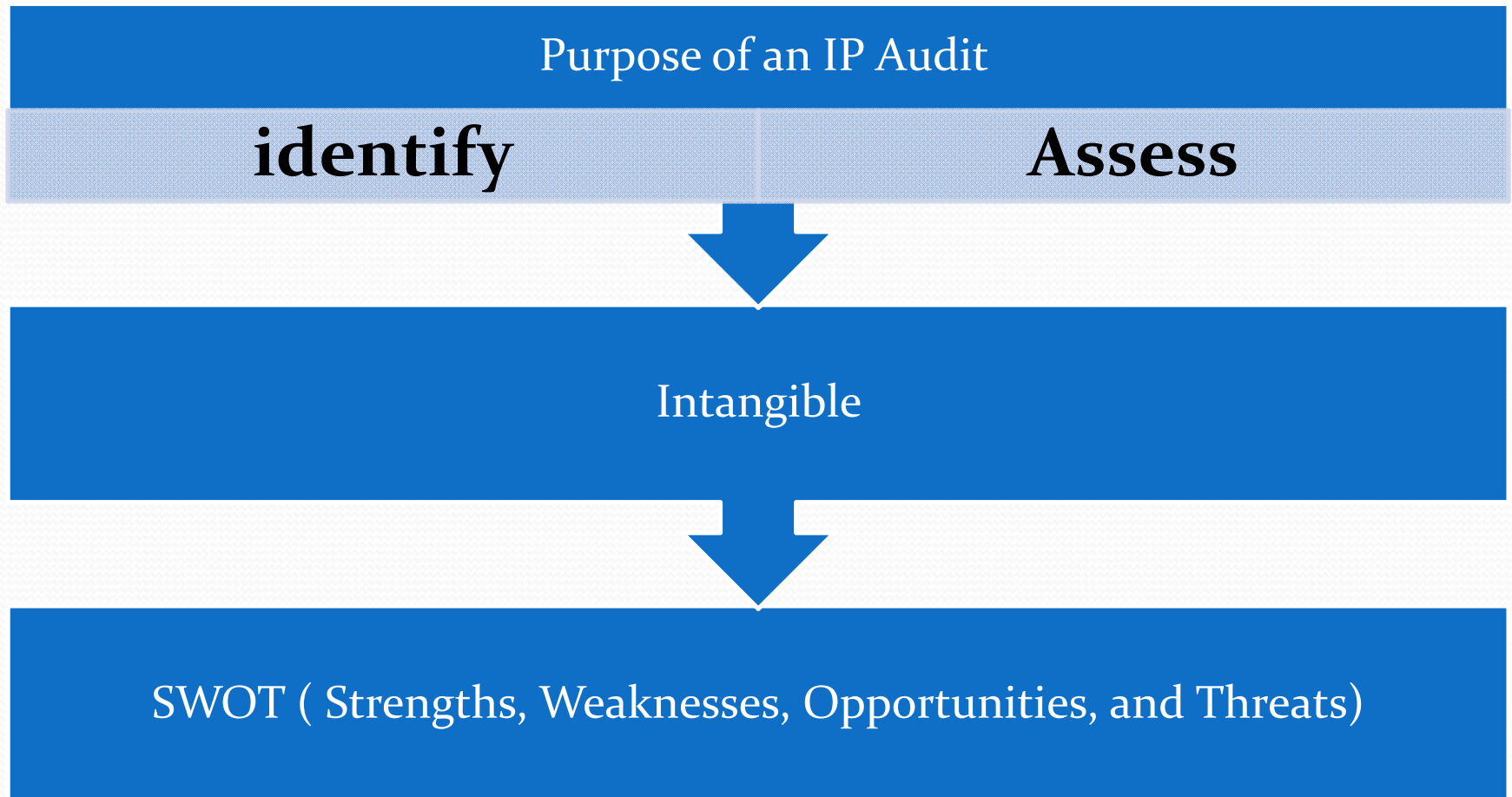


expression and production in the literary, scientific and artistic domain



the Ornamental, Aesthetic,

purpose of an IP audit



1- The Objective of IP Audit

1. To uncover under-utilized IP assets
2. To identify any threats to a company's bottom line

Who will do the IP Audit

- best done by a team that includes.
 - ❑ expertise in IP.
 - ❑ The relevant technical areas,
 - ❑ The relevant areas of the company as may be appropriate for ensuring maximum effectiveness.
- An IP audit team should have understanding of the:
 - ❑ product lines,
 - ❑ the relevant business environment .
 - ❑ the future plans of the company so that the audit remains focused on IP assets of maximum business relevance.



Types of IP Audit?

➤ General Purpose Audit:

➤ Event Driven:

- When a business is being bought, or sold
- When you are enforcing or defending your IP rights.

➤ Limited purpose:

1- General Purpose Audit

- Before establishing a new company—needs know the owns or needs to protect.
- When an established business is considering implementing new policies, standards, or procedures relating to intellectual property
- When a new marketing approach.
- When a new person becomes IP management.

2- Event-Driven (due diligence)IP Audit.

- Due diligence : **before** earning of a **technology or product**.
- IP Audit It can provide detailed information that may affect the price or other key elements of a proposed transaction.
- IP audits have been known to uncover details that have caused merger and acquisition transactions to be aborted.
- before entering into most financial transactions involving IP , such as licensing, bankruptcy, IP disputes.

3- Limited-Purpose Focused Audits

- **Change in the law.** : A change or development in the associated IP law may require an audit to determine the extent of the effect on the rights provided to the portfolio as well as on the potential infringement rights of others.
- **Employee turnover.** your company will want to know the IP for employees have contributed, what they have had access to, and whether their contracts are up to date (especially if they are disgruntled employees)

Steps on IP Audit

1: Investigation

- business information, including advertising, promotional materials, customer lists, prospect lists, pricing information, sales figures, financial projections and other materials

2 Step: Identification

- Identify the IP
 - Trademarks
 - Copyrights
 - Designs
 - Patents
 - Product/process Know-how
 - Trade Secrets

3 Step: Categorisation

- Owner
- Licensee
- Licensor
- Domestic
- Foreign



4 Step: Itemize external or market influences

- company brand
- product brands
- company and product get-up
- Goodwill
- product certification
- export certifications
- Regulatory approvals

5 Step: Examine Enforceability

- Legal Provisions and Economics
- Legal Steps
 - Civil Procedures
 - Criminal Procedures

An Inventory of IP Audit

- Whether or not your IP rights are registered;
- Whether you have any IP issues and what to do to address them;
- Who owns the rights and, if you not, identify any conditions that apply to their use;
- An assessment of whether your IP is being used effectively.
- Whether your rights are being challenged or threatened by others.
- Whether you have an effective IP management and maintenance plan in place.
- Records of your IP creation and ownership.

The resulting of an IP Audit Report 1

- **Inventory issues**
 - A catalogue of intellectual property assets, including disclosures.
- **Rights issues**
 - An understanding of rights that have been acquired, and whether they have been properly maintained;
 - an understanding of those rights that have not been acquired and whether or not they should be
- **Ownership issues**
 - Does the company have clear ownership over these assets?
 - Has title been properly assigned by employees/consultants?

Content of an IP Audit Report 2

- **Infringement issues**
 - Are patents being used for which the company does not have rights?
- **Strategic issues**
 - Are these assets being properly managed and exploited in alignment with the strategic objectives of the company?
 - Are there restrictions to their use?
- **shortage issues**
 - Are there patentable technologies currently not protected?
 - Are there copyright and trademark registration applications to be filed?
 - Are there affidavits of continued use of trademarks, maintenance fees to keep patents in force.

Auditing agreements

- **Licensing agreements:** to ensure that the company is continually in compliance with the terms of such licenses.
- **Assignment agreements:**
 - whether the company was granted an assignment from every inventor or author of a work.
 - whether the license was exclusive.

Employment agreements:

- the transfer of the IP rights from employees or contractors to the company
- Terms and conditions under which an independent contractor is allowed to use any copyrighted materials or rely on trademark association with the business
- The scope of the assignment itself.
- Provisions regarding a waiver of moral rights.
- Clauses setting restrictions on the disclosure or use of confidential information during or after employment/contract
- Provisions defining the employees' continuous obligation to assist in the protection of the IP rights

Joint Venture Agreements

- Who owns the IP assets pre-dating or created through the joint venture or collaboration.
- Define a system for identifying protectable intellectual property resulting from the cooperation.
- Identify who pays for application for registration.
- Determine the scope of IP contributed to the joint venture.
- Determine which IP rights can be used by whom, when the joint venture or collaboration ends.

Other Agreements

- Technology transfer, or know how, or technical assistance agreements
- Design and development agreements
- Franchise agreements
- Royalty agreements
- Distribution/Distributorship agreements
- Source code escrow agreements.

IP financing

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IP financing

- IP financing, or the **use** of IP assets (trade marks, design rights, patents and copyright) to **gain access to credit**, is gaining increasing attention in IP circles.

IP finance

- "Where money issues meet IP rights".
- calculating quantity of damages—
- anything that happens where IP meets money.



(IP) assets can be monetized

- there is growing awareness that (IP) assets can be monetized. There are various ways to do so.
- IP can be:
 - sold, licensed, used as collateral or security for debt finance, or it can provide an additional or alternative basis for seeking equity from private investors .



Method for using the value of IP

- licensing (royalties)
- Direct sales of patents or trademarks
- Auctioning their IP
- use it as collateral.
- the collateralization of IP can also increase the amount of available credit.
- Some banks also use IP assets as a credit enhancer.
- The number of such IP-backed transactions is growing.



Methods of Valuing

- **Successful valuation** depends on accurate estimates of how successful a product will be and **how much it will sell for**.
- The specific methods of valuation focus on
 - 1- how the technology is used.
 - 2- how much it costs to develop,
 - 3- how long it will take before its sales generate returns,
 - 4- the probability that the technology will be commercially successful.Pricing, on the other hand, refers to the price a buyer and seller agree upon.

Methods of Valuing

- **Market Approach**
- **Cost Approach**
- **Income Approach**

Cost Approach

- Estimates the value of underlying IP asset basing on historical cost incurred in developing the asset
 - Replacement cost
 - Reproduction cost

Market Approach (sales comparison approach)

- Based on the value of similar or comparable assets that have been exchanged, at arm's length, in active market.

Income Approach

Based on the income-producing capability of underlying IP asset

- Seeks to establish the net present value (hence use of discounted cash flow).

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The end