Using IP audits to optimize IP assets

Received (in revised form): 22nd September 2009

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ABSTRACT **Obtaining, maintaining and leveraging intellectual property (IP) rights on important or critical technologies requires a significant investment of both money and time. In the current challenging economic times, it is more important than ever for owners of IP assets to ensure those assets are yielding sufficient return-on-investment (ROI). This is true whether the owning entity is a corporation, an academic institution, an individual or a non-profit. In a typical organization, however, there is often a substantial percentage of underperforming IP assets in the portfolio. Conducting routine IP asset audits is one of the best management tools for regularly reviewing an IP portfolio and ensuring that individual IP assets within it are not idle and are yielding sufficient ROI.**

Journal of Commercial Biotechnology (2010) **16,** 88–93. doi:10.1057/jcb.2009.29

Keywords: assets; IP; intellectual property; management; optimization

INTRODUCTION

Modern technology-focused companies, academic institutions and non-profits typically have substantial annual budgets (and staffs) for the development, acquisition and leveraging of intellectual property (IP) assets. In smaller organizations with modest budgets, IP assets may number in the dozens, whereas in larger more established organizations with significant budgets, IP assets may number in the thousands. In any case, as an organization grows and its business activities expand, so grows the scope of its IP asset acquisition and leveraging activities. The pace of IP asset acquisition and utilization activities often exceeds the amount of time and effort allocated to properly managing those assets. As a result, some assets in the growing portfolio, such as in-licensed technologies or early stage patent filings, may ‘get lost in the forest’ and become underutilized or even idle. Such underperforming assets continue to cost the organization time and money to maintain, despite the fact that they are not yielding sufficient ROI to warrant keeping them. In some cases, these assets will not even yield a break-even on investment.

In order to ensure optimal utilization and return-on-investment (ROI), IP assets, like any corporate asset, require effective organizational management to achieve desired ends. Optimally, annual or semi-annual internal IP audits should be conducted examining each portion of the IP asset portfolio to determine whether

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underperforming assets exist, and if so, to eliminate wasteful spending and/or generate new revenue streams from monetizing underutilized assets. Frequently, however, legal or licensing departments (if they exist) within established, active technology companies lack the manpower and time resources to conduct such critical IP audits routinely. In such situations, an externally conducted IP audit is often warranted to improve the ROI from a company's IP assets.

CONTENT OF THE IP PORTFOLIO

An organization's IP assets broadly include its worldwide patent, trademark and copyright portfolios (both pending and issued/registered), together with its trade secrets, valuable know-how/show-how pertaining to its products, processes and technology and its worldwide in/out-licensing portfolio, along with its technology/product alliance and collaborative partnership portfolio. Among these, the in-license, patent and trademark portfolios are often rife with underutilized IP assets, and audits of these aspects of the overall portfolio can yield great savings and improved revenue.

IN/OUT-LICENSE PORTFOLIO

A typical technology organization has an active worldwide in-license portfolio that includes rights to use third party materials and processes (whether patented or otherwise legally protected) desired or necessary for its ongoing or planned R&D and/or commercialization activities. As R&D and commercialization activities and plans change over time, it is important to revisit (optimally on an annual basis) the in-license portfolio to ensure that it aligns with the organization's shifting strategic activities. Auditing the in-license portfolio is desirable and necessary to identify irrelevant or unnecessary in-licenses to external technology for which the organization is paying but not utilizing.[1] Specific benefits of such an audit include the identification of non-performing in-licensed IP assets to save money and improve the bottom line by:

- Eliminating wasteful spending (annual maintenance fees, minimum annual royalties, diligence payments) on in-licenses covering technology no longer used or needed by the company, which are not yielding suitable ROI for the organization.
- Eliminating waste of in-house legal department time and manpower resources maintaining and tracking such non-performing license assets.
- Typically an in-license portfolio at a given technology organization will contain 5 per cent or more under/non-performing in-license assets, and the savings from eliminating wasteful spending on such assets, or improving leveraging of such assets, often more than pays for the cost of the audit.

A common example of an underutilized in-license asset occurs when the R&D group of a company desires to conduct some development work that requires an in-license to third-party technology (perhaps patented, or a proprietary material and so on). The company negotiates and executes a license for which it must pay up-front fees, as well as an annual maintenance fee and/or minimum annual royalties. A few months later the R&D group conducts their project with no resulting product that the company will commercialize and ceases using the in-licensed technology. However, the R&D group fails to notify their legal department, so the company continues paying annual fees on the license until it discovers (if and when a routine IP asset audit is conducted) that the technology is no longer in use.

PATENT PORTFOLIO

A typical technology organization has an active worldwide patent portfolio that includes issued patents as well as pending patent applications covering materials and processes desirable or critically necessary to protect and provide exclusivity for its ongoing or planned R&D

and/or commercialization activities. Often, patent filing decisions are made at an early point in time, when the commercialization or R&D plan for the covered invention is still under development, but when the filing must nonetheless be made to preserve patent rights and priority over other potential inventors. The portfolio will frequently cover, not only 'core' technology (deemed essential to the company's competitiveness), but also 'ancillary' and even 'satellite' technology (deemed non-essential to the organization's competitiveness but of potential market value). As R&D and commercialization activities and plans change over time, it is important to revisit (optimally on an annual basis) the patent portfolio to ensure that it aligns with the organization's shifting strategic activities. Auditing an organization's patent portfolio is desirable and necessary to identify irrelevant or unnecessary patent applications and issued patents for which an organization is paying (to prosecute and maintain such assets) but no longer has a definite intention of exploiting in the market. Specific benefits of such an audit include the identification of non-performing patent assets to save money and improve the bottom line by:

- Eliminating wasteful spending (official and attorneys' fees associated with the filing, prosecution, issuance and maintenance of applications and patents, including substantial translation fees) on patent assets covering technology that the company no longer intends to exploit in the market, which are not yielding suitable ROI for the organization.
- Eliminating waste of legal department time and manpower resources maintaining and prosecuting such non-performing patent assets.
- Creating a new revenue stream by identifying promising but underutilized non-core patent assets having suitable market potential, which the organization can actively out-license to third parties.
- Typically a patent portfolio at a given technology organization will contain up to 20 per cent underperforming patent assets, and the savings from eliminating wasteful spending on such assets often more than pays for the cost of the audit. As worldwide patent costs escalate significantly as patents progress, significant savings can be realized by making early 'kill' decisions.

A common example of an underutilized patent asset occurs when the R&D group of a company develops some promising new technology that is outside of the company's core focus but within its ancillary focus. A decision is made to file a patent application on the technology to provide future commercial exclusivity should the company decide to move into that area and/or out-license the technology to a third party. However, no clear commercialization plan is ever adopted for the technology, so interest in the asset becomes back burner as the day-to-day activities of the company move on. Accordingly, several years later, after significant investment of time and money in maintaining and advancing the filed patent, the asset is idle, having never been actively commercialized or out-licensed by the company. The company continues paying to maintain and advance the filed patent until (if and when) it discovers the technology is not being commercialized – and the IP asset thus underperforming – during a routine IP asset audit.

TRADEMARK PORTFOLIO

A typical technology organization has an active worldwide trademark portfolio that includes issued, as well as pending, trademark registrations and applications covering marks desirable or critically necessary to provide strong brand recognition and exclusivity for its existing or planned commercial products and services. Such portfolios may also contain third-party trademarks, which have been in-licensed, used in connection with the commercialization of in-licensed products or with proprietary products produced by in-licensed methods. Often, trademark filing decisions are made at an early point in time, when marketing departments begin thinking about branding for in-development or future products, but when the filing must nonetheless be made to preserve priority. Often, the portfolio will cover, not only 'core' product branding (deemed essential to the organization's competitiveness), but also 'ancillary' and even 'satellite' product and service branding (deemed non-essential to the organization's competitiveness but of potential market value). As product/service development, launch/marketing and commercialization activities/plans change over time, it is important to revisit (optimally on an annual basis) the trademark portfolio to ensure that it aligns with the company's shifting strategic activities. Auditing an organization's trademark portfolio is desirable and necessary to identify irrelevant or unnecessary trademark applications and registrations for which it is paying (to prosecute and maintain such assets) but no longer has a definite intention of exploiting in the market. Specific benefits of such an audit include the identification of underperforming trademark assets to save money and improve the bottom line by:

- Eliminating wasteful spending (official and attorneys' fees associated with the filing, prosecution, registration and maintenance of applications and registrations) on trademark assets covering brands for products/services that the organization no longer intends to exploit in the market, which are not yielding suitable ROI. Included in this area are license fees (annual maintenance and/or minimum annual royalty payments and so on) associated with in-licensed trademarks for products/services that the organization has ceased or intends to cease commercializing.
- Eliminating waste of legal department time and manpower resources maintaining and prosecuting such non-performing trademark assets.
- Create a positive new revenue stream by identifying promising non-core trademark assets of market potential, which the organization can out-license (together with their associated products) to third parties.
- Typically a trademark portfolio at a given technology organization will contain up to 20 per cent under/non-performing trademark assets, and the savings from eliminating wasteful spending on such assets often more than pays for the cost of the audit.

A common example of an underutilized trademark asset occurs when the marketing group of a company notifies its legal counsel (internal or external) of an intended new product launch and some trademark candidates that it wishes to protect for branding. Several federal trademark applications are filed on various potential names that may be adopted. Over a year later, the new product goes to market under the brand selected by the marketing department. However, due to poor internal communication, legal counsel is never informed that the other trademarks have been abandoned and are no longer of interest, hence the filed applications on those marks continue to be maintained and prosecuted at the company's expense. This situation continues for the non-performing trademark assets until an IP asset audit identifies the wasteful spending.

CONDUCT OF THE AUDIT

Each portion of the overall IP portfolio should be audited separately (for example patents first, trademarks next, then in-licenses and so on). The assets being audited will be assessed for (i) relevance to ongoing commercialization activities or plans, (ii) status, scope and risk factors affecting value (iii) and cost/benefit of the asset. The overall goal of the assessment is to determine, for each asset, whether it is being (or will be) sufficiently utilized to warrant its continued maintenance (with investment of cost, time, effort) within the portfolio. Each audited portion should be examined for the following non-exhaustive aspects, as may be relevant to a particular type of asset:

- Stage (provisional, pending (early or late stage), issued/registered, licensed and so on)
- Status (allowed, rejected (non-final or final), appealed, continued, terminated and so on)
- Anticipated Time to Issuance/Registration (or Execution of License).
- Development Plan (plans and timeframe for further R&D work for technology).
- Commercialization Plan (plans and timeframe for leveraging the IP asset).
- Life span of the Asset.
- Core, Ancillary or Satellite (to organization's business).
- Relevance to Market.
- Existence of Known/Potential Interested Parties.
- Existence/Relevance of Known Competitive Technologies.
- Costs-to-Date for Acquisition and Maintenance of the IP asset.
- Projected Future Costs for Maintenance and Leveraging of the IP Asset.
- Expected (or Existing) Revenue Stream for the IP Asset over its Life Span.
- Existence of Other Risk Factors Impacting Value (for example recent law changes or court decisions impacting the scope/value of the asset, known close prior art and so on).

A useful approach for assessing the information gathered during the audit is to assign a score to each IP asset. Scoring typically assigns a scaled numeric value to a limited number of attributes that reflect the value of the IP asset to the organization. The scored attributes may include some or all of the above audited aspects. For example, scoring may assess a scaled value to legal aspects of the asset (for example perceived scope & strength, issued versus pending, likelihood of issuance and so on) and business aspects of the asset (for example core, ancillary or satellite to the organization's business, relevance to the market, known interested licensees and so on). Scores of 1 to 5 are typically assigned, with 5 being a strong value indicator and 1 being weak. A scoring threshold may also be employed to help make keep versus kill decisions for each IP asset easier and efficient. For example, if a scoring approach is utilized where 25 points represents the maximum value score possible, a threshold might be set at 15 points, where assets below that threshold are deemed underperforming and subject to elimination.

Once the audit is completed, assets identified as failing to provide sufficient ROI (whether presently underutilized or anticipated to be underutilized in the future) should either be eliminated from the portfolio (in cases where no future improvement in ROI is anticipated, for example a pending patent for which no future commercialization plans exist) or be subjected to an improved and clear asset utilization/leveraging plan (in cases where a near-term improvement in ROI is envisioned, for example an executed, in-force out-license to a third party that is not sufficiently utilizing the licensed technology but is expected to increase usage shortly). The final decisions are typically made by suggestion of IP Counsel together with input from the relevant Executive team of the organization. The results in ROI will be significant direct savings from elimination of wasteful spending on underperforming IP audits, indirect savings in staff time and costs attributed to acquiring and maintaining such underperforming assets and new/improved revenue streams from previously underperforming assets that are subjected to an improved utilization/leveraging plan.

FREQUENCY OF AUDITS

The more frequently IP asset audits are conducted, the more regularly and effectively underperforming IP assets will be identified, providing maximal opportunity for cost savings and improved revenue generation. Ideally, routine IP audits should be conducted quarterly or semi-annually. Often, however, understaffed legal departments and overloaded IP Counsel will not be able to conduct audits of such frequency. Accordingly, an annual IP asset audit is recommended and considered reasonable. Audits conducted less often than annually are less desirable, as they may not allow the improvements in ROI to be fully realized.

CHOICE OF AUDITOR

Ideally, IP Counsel within the organization should conduct routine internal IP asset audits. In larger organizations where legal functions are separated and overseen by individual Counsels (such as Patent Counsel, Licensing Counsel and so on), each should conduct audits of their specific aspects of the overall IP portfolio. Unfortunately, irrespective of the size of the organization, internal Counsel often is too busy or lacks the manpower resources to conduct such audits routinely, if ever. This is particularly true in smaller, quickly growing organizations, in which a single Counsel may have to serve as a 'jack of all trades' with very limited staff/time resources. In cases where the internal IP Counsel is unable to conduct routine IP asset audits, qualified outside experts/consultants may be retained to conduct them.

The IP rights that protect IP assets are by definition legal rights. Assessing the content, scope and value of such legal rights necessarily requires competence and expertise in making those assessments. Patents assets, for example, must be examined with regard to their status, claim scope/breadth, content of disclosure, state of prosecution before Examiners, likelihood/timeframe of issuance, existence of provisional rights and many other legal issues/requirements. Similarly, trademark assets must be examined with regard to their status, nature/strength of the mark, presence of similar marks, state of prosecution before Examiners and other legal issues/requirements. For these reasons, it is essential that the person(s) conducting the IP asset audit be a registered patent attorney and/or IP attorney with sufficient years of experience. Optimally, the auditor(s) should have senior experience managing IP assets within an organization, in order to ensure that IP assets are considered in the context of business value and ROI. Such qualified persons can be found in certain consulting organizations and law firms. Persons lacking these credentials but holding themselves out as experts in, and providing, IP portfolio management and audit services should be avoided, as they will lack the expertise and depth of perspective to conduct an effective IP audit.

In conducting the IP audit, the auditor(s) will necessarily be interacting with certain individuals within the organization for fact collection relevant to assessing asset utilization. For example, R&D and production staff may need to be interviewed about whether certain technology is in use or planned to be. Business development and sales individuals may need to be interviewed about commercialization, partnership, and marketing plans for products, services and technology.

CONCLUSION

The development of an organization's IP portfolio is an essential part of its growth and continued future success. At the same time, acquiring, maintaining and leveraging IP assets require a considerable investment of money and time. Frequently, as the organization and portfolio grows, there will be a portion of IP assets that are being underutilized. The conduct of routine IP asset audits is an important and valuable tool to help maximize the ROI from an organization's IP assets and activities by helping identify poorly or underperforming assets that should be eliminated or better leveraged to improve the bottom line.

NOTE

1. Similarly, auditing an organization's out-license portfolio allows it to terminate or better manage under or non-performing out-licenses (patent, trademark, trade secret) to third parties that are not sufficiently utilizing the licensed technology (according to the terms of the agreement) and yielding suitable ROI for the company.