

IP AUDITS IN THE CORPORATE CONTEXT

Key Objectives & Requirements

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IP AUDITS PROVIDE *DIRECTION, INNOVATION AND PROTECTION* FOR A COMPANY'S CORE ASSETS

INTELLECTUAL PROPERTY RIGHTS ARE COMPLEMENTARY - THEY PROVIDE MAXIMUM PROTECTION FOR INTERESTS WHEN USED TOGETHER PROACTIVELY & ENFORCED COMPREHENSIVELY INTERNALLY AND IN THE MARKETPLACE.

INVENTIONS & INVENTIVE CAPACITY

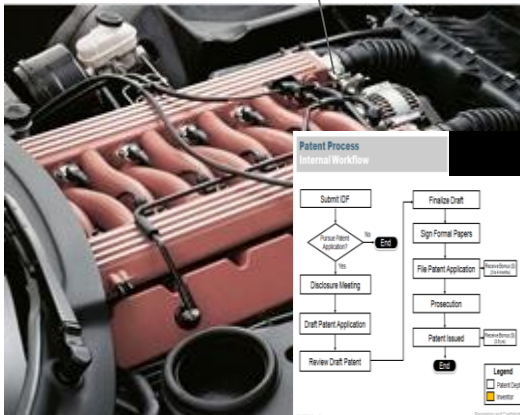
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TRADE SECRETS, CONFIDENTIAL INFORMATION & TRAINING

COMPETITION LAW & CONTRACTUAL RIGHTS



EMPLOYEE & THIRD PARTY CONTRIBUTIONS AND LICENSING



BILATERAL PROPRIETARY INFORMATION AGREEMENT

THIS PROPRIETARY INFORMATION AGREEMENT is made this day of 2011 by and between a corporation, with its principal place of business at ("Company"), and a corporation, with its principal place of business at San Jose, California, USA ("Contractor").

Background

1. Company has extensive expertise in the creation and development of technical information, ideas, and concepts relating to the industry including, but not limited to, manufacturing and implementation and systems design for such software, hardware, patents, trademarks, copyrights, trade secrets, plans, source codes, object codes, prototypes, working models, and production models ("Confidential Information"). Contractor has extensive expertise (collectively referred to with Company's expertise as the "Confidential Information").

2. The parties desire to exchange the Confidential Information.

3. The "Receiving Party" will be receiving the other party, the "Furnishing Party" with information and/or other materials, in writing, orally, and in other tangible form, regarding the Confidential Information, as a whole or in part, together with any notes, compilations, extracts, or other documents prepared by the Receiving Party, the Receiving Party's agents or employees, which contain or otherwise reflect such information and Contractor's name or interest in the Furnishing Party, shall be considered Confidential Information.

4. The Confidential Information of Company and Contractor is proprietary, secret, and confidential and is only being disclosed to the other party in connection with Company's business relationship or potential business relationship with Contractor and for no other reason.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties intending to be legally bound, agree as follows:

1. Company and Contractor shall disclose to the other such Confidential Information as such party deems appropriate.

2. Company and Contractor shall protect and maintain the Confidential Information in accordance with the following terms and conditions.

3. Company and Contractor agree to treat all Confidential Information as defined above as confidential and not to disclose the same to any third party. The documents containing such information shall be designated "Confidential" or "Proprietary" and shall be so marked by the Furnishing Party provided, however, that all software provided by Contractor hereunder shall be deemed to be proprietary and confidential regardless of whether it is marked "Confidential" or "Proprietary".

4. All copies of the Confidential Information shall be made, unless agreed to in writing by the Furnishing Party.

5. All of the Confidential Information shall be kept and maintained in a safe and secure place with adequate safeguards to assure that unauthorized persons do not have access to the Confidential Information. Company and Contractor shall, at all times, keep the other informed in writing of the location of the Confidential Information.



IP is SAP's Business....



- IP risks are inherently high in most areas of a technology company's business – from development and contracting to licensing and partnering, only closely tailored processes and monitoring can minimize the risks. Bridging the divide between IP processes and asset protection naturally involves IP auditing and Intellectual Asset Management expertise on the following key issues among others:
- Preventive Product Development and Activity Management to avoid patent infringement, copyright infringement, misappropriation of trade secrets or work product, unfair competition, breach of contract and other risks.
- Company employees and/or third parties working with or exposed to third party or other confidential proprietary information.
- Strategic Development of the company's Patent Portfolio so as to widen the scope of enforceable rights detained by the company to maintain and increase market share without causing unproductive friction with competitors.
- Verifying IP Compliance with Company Policies & Guidelines, contractual obligations, and international laws at all levels.
- Ensuring new product and technology offerings do not infringe third-party rights through effective product screening to prevent any form of improper intellectual property use.
- Supervising the implementation of partner, client and third party licensee contracts to ensure the protection of trade secrets, work product, positive and negative know-how, databases and other confidential information.
- Monitoring the effectiveness of policy, training and conformity in avoiding situations unduly creating IP related risks.

The Forecast for Intellectual Property Audit Requirements

THE CONTEXT

The market for technology related products and services will not permit sustainable growth based on product quality and innovation alone. The battle for market access and market share is being fought through strategic negotiations and in the courts with the quality and quantity of IP assets acting as the primary leverage and bargaining tools.

- Companies will only be able to strongly compete in markets where they hold enough IP leverage (patents, innovative proprietary material, confidential data and systems, exclusive licenses, and other interests) to avoid or successfully defend against competitors' and other IP owners' legal positioning and lawsuits.
- The powerful role IP rights play in the successful execution of strategy will continue or grow over the next decade as technology advances at an unprecedented pace, and international legal systems remain behind the curve in applying consistent logic and standards to resolve the issues raised.

THE RESPONSE

Companies will need to execute strategically focused IP Audits on key subjects impacting their business to reduce vulnerabilities to a minimum, and to optimize the value and bargaining power drawn from IP rights held or acquirable.

- Effective action will require frequent audits of IP subject matter to effectively monitor and verify that IP assets and interests are sufficiently protected and used properly, and that the process of creating or obtaining new IP interests remains viable and secure.
- Audit topics need to be balanced between past / present oriented issues requiring situational improvement or restructuring, and future oriented IP subject matter for which validity and enforceability of rights are crucial to the success of new products and services.
- IP issues concerning evolving business interests and new products and markets require special scrutiny.

CORPORATE OBJECTIVES & REQUIREMENTS **IN CONDUCTING IP AUDITS & IAM**

**GOING BEYOND THE TRADITIONAL ROLE
OF AN IP ADVISOR**



Corporate acquisitions, partnerships and collaborative dealings are defining industry more than ever. Consolidation continues to be a major driving force behind IP strategy.

Patents, trade secrets, confidential information, strategic licensing and brand recognition are leading the battle among future oriented businesses for increased market share, innovative capacity, bargaining power/influence and profit. The result is a pressing need for advice, decision and action at the highest levels of corporate management on what IP rights and what levels of protection will be necessary to continued future success.

Litigation, IP oriented corporate acquisitions and IP asset acquisitions are swiftly changing the game as far as who will have access to compete in what markets, where, how and with what technology. **The successful preparation and management of these matters demands a much closer and integrated role than legal advisors have often played in the past.** The especially litigious context that surrounds most new and rapidly evolving technologies further defines the role that advisors should assume in guiding their clients through critical phases in IP acquisitions (beyond due diligence), licensing, litigation prevention, and document and asset management in preparation for litigation to maximize value for IP assets.



Industry's requirements for more far reaching IP counseling is also accelerating due to the unprecedented complexity of technologies, products and processes currently in development or already released.

The traditional realm of the IP audit is expanding to encompass advising internal corporate managers and employees on how to best conduct their daily business in connection with IP considerations. Aside from identifying and ensuring IP rights are viable and protected, the IP auditor will now also look forwards in time to identify potential risks and issues before they occur, and will equally assume a remedial role looking back in time to correct less than optimal situations to mitigate or eliminate risks to future business.

Key subjects addressed with advisors include: strategic and preventive product development, management of and access to confidential and proprietary information, creating legal frameworks for R & D activity, patent portfolio development, training, competitive market analysis, licensing, product positioning and setting up internal work flows including Intellectual Asset Management tools to ensure the proper management of IP from the inventive or creative phase through registration and sales.



Corporate needs evolve according to the size of the business and the level of sophistication attained in managing IP.

The coherent management of IP rights is not instinctual – it is an acquired ability that requires expert advice, training and follow-up management.

- Smaller companies and start-ups using IP as a platform for growth have a critical need for legal counsel in creating and positioning basic protection, strategy and management processes.
- Mid-sized companies (annual gross sales between approx. \$50 million and \$500 million) have a regular need for specialized legal counsel to adapt their processes to best capture and manage IP, and to optimize value and prevent losses. IP portfolio development, implementation of effective IP policies and innovative alliances will be keys to their success.
- Large companies continuously refine their IP work flows and business model to obtain a full return on their investments, avoid litigation and pro-actively assert their rights in a timely manner.



Advisors in the IP audit and intellectual asset management role help a company to apply the best legal and industrial practices in the creation, use and protection of each distinct type of intellectual property to achieve maximum IP security – and measurable control of the corporate IP landscape internationally. Again, companies sometimes lose sight of the fact that IP rights are complementary, and provide maximum protection for interests when proactively enforced globally through comprehensive internal policies and procedures.

the identification of unaddressed internal corporate IP issues and subjects through IP auditing



Patent Development and Protection

Requirements can include:

- Establishing procedures to foster the creative process, ensuring coherent invention and patent portfolio development management, avoiding unintentional disclosures, aligning patent filings with corporate strategy, and clearly identifying patent revenues.
- Maintaining an infringement risk free “clean” work environment. Set up patent filters and screens to create R & D frameworks and other methods to protect the patentability, validity and enforceability of patents from claims of (1) failure to disclose knowledge of prior art, (2) inequitable conduct by the patentee, (3) anticipation or obviousness, (4) infringement or other risks. Restrictions for R & D access to external materials also serve to prevent copyright, misappropriation, data fraud, trade secret or contract issues as well. A proper “clean” process will enable engineers to contribute to issue identification without exposure to prior art, while leaving issue analysis to the legal experts.
- Advising on the establishment/management of a Patent Review Committee with regards to: invention selection criteria (patent or trade secret), foreign filing strategy, cost benefit analysis and strategic decisions on which patents to file, competitive intelligence, training employees on the patent process and safeguarding patentable IP, and the allocation of human resources with valuable inventive potential.



Managing Confidential Proprietary Information

Requirements can include:

- Advice on managing third-party confidential proprietary information. Basic objectives: the clear identification of all such material, controlled access to and use of identified material, and risk mitigation measures including individual employee NDAs, physical and technological access barriers, etc.
- Close monitoring of relations with product development partners and contractors to ensure contract compliance on all ends. Verification of and conformity to the process governing the communication of data with third parties. Notably, whether permissions been obtained whenever required, and that the scope of licenses is not exceeded. Additionally, assurance that third parties are providing the same level of data protection as your company, and that their level of protection in line with company policy and legal requirements.
- Balancing the legal and compliance risks of outsourcing R & D: competition law issues, licensing and contract issues, third party liability for infringement and exposure to personal liability, employment law issues and diminished control over IP assets, ensuring data security - including where off-site networks or cloud computing databases are used.



Trade Secret Protection

Requirements can include:

Expert advice, auditing and monitoring to ensure appropriate measures are in place that:

- properly identify, document and prove the existence and ownership of trade secrets;
- appropriately limit the range, quality and quantity of information accessed, and ensure that information afforded trade secret protection is the subject of efforts that are reasonable under the circumstances to maintain its secrecy;
- limit the number and quality of persons privy to the information;
- ensure that information/know-how is labeled as strictly confidential and/or privileged;
- ensure that protection via passwords, codes, encryption or physical security (including visitor restrictions) is reasonably sufficient, and the effectiveness of trade secret protection processes.
- ensure that all relevant employees and other persons or entities sign appropriate trade secret confidentiality agreements, related NDAs, and reasonable enforceable non-compete and non-solicitation agreements.



Compliance with Licenses and Related Contracts

Requirements can include:

- Advice on compliance with inbound and outbound product licenses and related contracts.
- Verifying that agreements are enforceable as desired and not in conflict with applicable law.
- Managing product, technology and brand ownership or control; licensing structures; and product distribution structure legal/competitive concerns.
- Ensuring that use and assignments of background IP, foreground IP and jointly developed IP are in compliance with contractual requirements. Effective management of development and product contractors.
- Alignment of third-party licenses with current and future strategy as part of company process.



Additional Opportunities for IP Practitioners **in the Audit & IAM Context**

- Advise companies on verifying compliance with company and industry rules, regulations, IP revenue recognition and related tax requirements, technology management best practices and additional insights that a specialized practitioner is well positioned to provide.
- Act as escrow agent in securing the transfer of trade secrets, confidential proprietary information or know-how – including in cases where it is likely that the transfer contingency requirement may never be met (i.e. where confidential proprietary data is only to be transferred upon performance default).
- Advise on the proper implementation of a formal intellectual asset management system including effective software, hardware, policies and guidelines (both legal and procedural).

SUCCESS IN INNOVATING WHILE MINIMIZING IP RISKS DIRECTLY IMPROVES GROWTH



✓ Broad IP audit and asset management activity directly positively impacts a company's bottom line, reputation, bargaining power, market position and market potential by reducing their exposure to IP risks and liabilities, and by increasing the value and reach of these critical core assets.

✓ The implementation of legal and industrial best practices contributes importantly to achieving the highest levels of coordination, compliance and innovative practices among all of the key corporate stakeholders and business partners involved.



✓ Your clients (and their clients) will perceive this added value through the stronger products, services and available product options that will result from the increasingly solid foundation of enforceable and optimally protected intellectual property rights obtained.





Thank You!

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