

# **Assets & Finance: Audits and Valuation of Intellectual Property**

*Internal Controls, Materiality,  
and Investment*

**2009**

Lisa M. Brownlee

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Disclaimer

# Dedication

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This book is dedicated to my family.

## About the Author

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**Lisa M. Brownlee** is a member of the Washington State Bar and is presently in private consulting practice. In 2003 she completed a sabbatical performing volunteer literacy tutoring in Belize, Central America, where she also consulted on implementation of new intellectual property laws with the firm of Glenn D. Godfrey & Company, Belize. Prior to her sabbatical, she served as Of Counsel to Morrison & Foerster, LLP, Brussels.

Ms. Brownlee earned her B.A. degree from Pennsylvania State University in 1983, an M.A. degree in English in 1986 from the University of Washington and her J.D. Degree from the University of Puget Sound (Seattle University), where she was Lead Editor of the Law Review. Following graduation, Ms. Brownlee associated with the Seattle firm of Foster Pepper & Shefelman, where she developed her expertise international intellectual property and computer law and advised on international trademark, copyright, and trade secret protection and enforcement.

In 1994 Ms. Brownlee relocated to Amsterdam, The Netherlands, where she associated with the firm of Trenite Van Doorne (now Van Doorne). She founded, developed, and managed the firm's international Internet/e-commerce law practice, including development and management of in-house know-how and expertise. She also founded, developed, and managed the firm's intellectual property due diligence practice, assisting the corporate finance/M&A department, and managed all aspects of legal due diligence.

As account manager, Ms. Brownlee managed the firm-wide service of multinational computer, E-commerce, merchandising, entertainment and financial clients. She has experience in advising on all aspects of European e-operations, including e-sales and distribution, best e-practices, such as use of metatags, hyperlinking, inline streaming, and personal data privacy. In addition, Ms. Brownlee has developed and negotiated a full range of computer hardware, software, and Internet contracts, including

license/shrink-wrap and click-through agreements, ASP agreements, on line communications policies, distribution and VAR agreements.

Another important aspect of her practice was advising on Benelux, European and international trademark protection and enforcement and on international registration, management and protection of domain names.

Ms. Brownlee has published numerous scholarly articles on intellectual property law, and is also the author of *Intellectual Property Due Diligence in Corporate Transactions: Investment, Risk Assessment, Management* (Thomson West 1998), and *Federal Acquisition Regulations: Intellectual Property and Related Rights* (Law Journal Press/ALM 2008). She has served on numerous international professional association editorial, advisory, and directorial boards, including the Board of Directors of the Computer Law Association, the BNA E-Commerce Law Report Advisory Board, and the Editorial Board of the Trademark Reporter. She is also on the faculty of the Georgetown University Annual E-Commerce CLA Program and is an Adjunct Fellow at the Discovery Institute of High Technology in Seattle. She was also a fellowship recipient of the Max Planck Institute for Intellectual Property and Competition Law, Munich.

# Acknowledgement

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The Author is pleased to introduce four contributing authors, whose contributions have been instrumental in ensuring that this text presents the most insightful, comprehensive, and state of the art view on each of their specialized aspects of IP/business practices.

## **MICHAEL G. ATKINS**

Mr. Atkins contributed advisory and authorial input to the trademark section in Chapter 5 (Analyzing the Results of the IP Audit). Mr. Atkins, a shareholder with Graham & Dunn PC in Seattle, represents clients in disputes involving claims of trademark infringement, trade name infringement, false designation of origin, unfair competition, cybersquatting, and breaches of contract in state and federal court. He also represents trademark owners in proceedings before the U.S. Trademark Trial and Appeal Board. Outside of the office, Mr. Atkins teaches trademark and unfair competition law at the University of Washington School of Law. He publishes the Seattle Trademark Lawyer ([www.seattletrademarklawyer.com](http://www.seattletrademarklawyer.com)), a blog that reports on developments in trademark law.

## **GARY BENDER**

Substantial revisions and additions to Chapter 6 (Valuation of IP Assets) were contributed by Gary Bender of Ernst & Young LLP's San Francisco office. Mr. Bender is the National Practice Leader of Ernst & Young's Intellectual Property Services Practice. Mr. Bender specializes in assessing and developing IP strategies, patent portfolio analysis, competitive intelligence, M&A related IP due diligence, developing and executing IP commercialization strategies, IP valuation and dispute related IP damages analysis and expert support. Mr. Bender has been involved in numerous IP disputes involving clients in industries such as financial services, biotechnology, pharmaceuticals, semiconductors, aerospace and defense and software. Mr. Bender's expertise in IP disputes and IP law has led him to advise clients with

a variety of other IP matters such as M&A IA due diligence, licensing support, royalty compliance, competitive intelligence and market analysis, and portfolio mining and management.

### **DAVID GAUNTLETT**

Chapter 7 (Insuring IP Assets) was authored solely by David A. Gauntlett, the principal of Gauntlett & Associates (<http://www.gauntlettlaw.com>) in Irvine, California. Mr. Gauntlett is a 1979 graduate of Boalt Hall School of Law, University of California at Berkeley, where he served as a member of the California Law Review. He received his B.A. from the University of California at Irvine, *magna cum laude*. Mr. Gauntlett represents policyholders in insurance coverage disputes regarding complex business litigation and intellectual property matters presently pending in 30 states. Mr. Gauntlett also serves as an expert witness for policyholders on insurance coverage for intellectual property lawsuits. He was Chair of the Special Committee on Insurance for the IP Section of the ABA, newsletter editor and Chair Emeritus for the IP Committee of the Torts and Insurance Practice Section of the ABA, and Vice-Chair of the IP Owners Association's Insurance Committee. Mr. Gauntlett is a highly recognized published author in the area of insurance coverage.

### **DONALD L. ZUHN, JR., PH.D**

Appendix 3 (U.S. Patent Reform[97]An Analysis of H.R. 1908 and S. 1145) was authored solely by Dr. Zuhn. Dr. Zuhn is a partner at McDonnell Boehnen Hulbert & Berghoff LLP, where he has more than a decade of experience in all aspects of patent prosecution, litigation, counseling, and licensing. He represents a variety of clients, including biotechnology and pharmaceutical companies — both large and small — and universities. Dr. Zuhn is the founder and editor of the *Patent Docs* weblog (<http://www.patentdocs.org/>), a site that focuses on developments in biotechnology and pharmaceutical patent law. He has written extensively on issues of patentability, practice and procedure before the U.S. Patent and Trademark Office, and patent reform, and regularly speaks on such topics. Dr. Zuhn graduated *summa cum laude* from the John Marshall Law School in 2002, where he served as lead articles editor of the John Marshall Review of Intel-

lectual Property Law. His article "DNA Patentability: Shutting the Door to the Utility Requirement" was published in the summer 2001 issue of the John Marshall Law Review. Dr. Zuhn received his Ph.D. in mammalian genetics from the University of Illinois at Chicago, where his doctoral and postdoctoral research involved an analysis of the structure and function of protein domains of human P-glycoprotein through the use of genetic suppressor elements encoding antisense RNA molecules and truncated proteins.



# Preface

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When I started practicing intellectual property law two decades ago, the Internet was essentially non-existent and biotechnology law was in its infancy. In intellectual property law, some things have changed tremendously, and much has stayed the same.

I have provided domestic U.S. as well as international (EU/NL) legal counsel to scores of multinational companies in nearly every major IP-intensive industry, from entertainment, merchandising/famous branding, and e-commerce/e-distribution/telecommunications, to privacy/encryption companies and biotech/GMO concerns. What is remarkable to me about the evolution of the intersection of IP and business is this: nearly every aspect of IP law, on essentially the same topics, is as in-flux today as it was in the late 1990s. Protection of famous marks, disputes over and registration of domain names, international copyright duration and protection in the e-environment, first to invent, first-(inventor)-to-file, and prior user rights: all of these are but examples of where the law was and remains in incredible flux.

What has changed considerably is the volume of laws governing these rights, and increase in the stakes involved in properly protecting, exploiting, and enforcing these rights. Even setting aside the volumes of EU and member country laws on IP and related topics passed in the last two decades, the expansion of intellectual property laws domestically and worldwide is vast. Reasonable minds can differ about the effects of the proliferation of laws and regulations governing these rights. From a practical standpoint, the intangible nature of these rights, coupled with the increasingly volume and complexity of laws and regulations governing them, compels corporate and banking/finance lawyers as well as non-lawyer advisors and the stakeholders themselves, to become fully educated on these topics in this vast category of invaluable assets.

Despite laws' attempts to tame these rights into something "intangible", if not tangible, these rights can best be

described as consistently, if not predictably, amorphous. They are products of the human mind. As such, these rights will always be recalcitrant to definitive delineation, quantification, and valuation. This is not to say the task is impossible, just a bit complex. The more our clients know about the indefinite, evolving nature of these rights, the better it is for us and them: IP is as risk-fraught today as two decades ago. It is also as interesting and rewarding.

The purpose of this book is to educate business and finance professionals on the key aspects of intellectual property law, and discuss how these rights are treated from an asset perspective: how they are created, exploited, litigated, valued, insured and reported. The book also aims to highlight key changing areas of intellectual property law, in particular patent law, and assess how those changes will impact investments in several key intellectual property-driven industries. Understanding the fundamental principles of intellectual property assets is critical to understanding the contexts in which they function. This book strives to aid in these understandings.

I value your input and suggestions on topics you think are helpful and/or otherwise in this book. All views expressed in this book are the authors' and reflect her personal views in her individual capacity. Nothing herein shall be deemed to represent the views of her clients.

Lisa M. Brownlee

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