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IP FRONTIERS

Audit your intellectual property

Each of us has been impacted in some way by the current recession, whether that's through knowing someone has lost his or her job, or feeling the effects of an employer's budget cutbacks.

One step a company may take in order to find increased sources of revenue is to perform an intellectual property audit.

IP audits usually are conducted in response to a specific event (e.g., an infringement lawsuit, a bankruptcy filing, or a financing round). Today's economic times have caused companies to initiate IP audits to identify future income sources, through asset sales, licensing arrangements or increased enforcement efforts.

The breadth of an audit is driven by the circumstances presented to the company. After the audit scope is set, the audit team will need to be determined. A team may be staffed with in-house personnel only, which includes representatives from legal (i.e., in-house IP attorney), marketing, sales, human resources and product development. Retention of outside IP counsel, either to perform the audit or to advise the team, occurs if discovery of underlying legal issues are anticipated.

The team will start by drafting an IP audit plan that outlines all of the areas to be investigated and the depth of corresponding inquiry. A timetable for conducting the audit must be established, and team members' responsibilities need to be set. The form of the deliverable should be finalized with approval from company management.

A comprehensive IP audit will examine all categories of IP owned or licensed by the company. The team initially will compile background information for review that provides an overview of the IP assets, the related technology and corresponding products. The document/data-gathering phase will begin after team members have familiarized themselves with the IP and related products.

The team may start by reviewing any company-wide IP procedures. Documents would include any policies related to new product development and commercial introduction. Policies relating to obtaining NDA signatures, how invention disclosures are filed and tracked, and when and where to file patent applications also may be included. Employee ownership transfer polices should be reviewed to ensure consistent implementation and enforcement.

When looking at the various IP assets to be audited, patents are the most prominent due to the inherent value of the exclusivity they provide to the company. The patent audit should start

with a complete inventory of all issued patents and pending applications. The review should determine the patents' current status (i.e., expired or current), ownership identification, current extent of use, the status of any related legal opinions, corresponding products (to ensure claim coverage and packaging marking), estimated value and whether any litigation or administrative proceedings have been commenced that may impact the patents' value. Depending on the scope of the audit, the team may review the paper trail for each product — from invention disclosure to final product sales — to evaluate compliance with company procedures and product development efficiencies.

A review of any licensed patented technology also should be undertaken. Many companies license unused IP to others and view it as an excellent source of revenue. A complete inventory of all license agreements should be compiled and each licensee's compliance with the terms of the license agreement should be reviewed. The licensed patents should be examined to ensure the company has fulfilled its maintenance and enforcement obligations under the license agreement. In the event any license arrangements are non-exclusive, the value in entering additional licensing relationships should be undertaken. The patent audit also

should identify patents the company wants to keep for its use with current and future product lines, and also identify non-core patents that either can be licensed or sold outright to a third party.

For the trademark and trade dress audit, the team should take an inventory of all registered marks, and review the current standing of those marks. Trademarks are different from other forms of IP in that they must be renewed every 10 years and be used continually in commerce. If a company no longer is using the trademark, the registration likely will lapse with abandonment of the mark being presumed after three years of non-use. A review of countries in which the trademark is registered and whether use (infringement) monitoring is being performed should be performed. A check of marketing and sales department procedures should be done to confirm the mark is being used properly in advertising collateral and packaging, and that the registration notice is being used consistently. Confirmation of the distribution and posting of the company's guidelines for use also should take place.

An inventory of applied-for trademarks, whether they are



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“use” or “intent-to-use” applications and the corresponding status for those applications and the associated products will assist in establishing the value of the applied for trademarks. If any trademark license agreements have been entered, the contracts should be reviewed for compliance and value.

Performing a copyright audit will depend on the types of products and services provided by the company. The team should start by reviewing the company's current copyright registration filing policy. In the event no policy exists, this may be of concern because of the requirement to have a copyright registration in order to initiate a federal infringement lawsuit.

An audit should include listing all registered copyrights and reviewing their registrations for accuracy. Ensuring proper ownership of the work is critical to determine whether the works created fall within the “work-made-for-hire” exception or are owned by individual employees. All employment and independent contractor agreements should be examined to confirm “work-for-hire” provisions are included and that the creator of the work has signed the agreement before creating the subject work. The audit should look at any current license agreements and whether any enforcement actions have been initiated as to unlawful copying or reproduction of the copyrighted work. Finally, any unused registered copyrights should be examined for possible licensing or sales to third parties.

A company's trade secrets should be audited, with focus on the steps that have been taken to protect the company's iden-

tified trade secrets. During the review, it is possible the team may discover additional items and processes that can be exploited as trade secrets by the company. The corporate security policies for trade secret protection, and how the company determines what a trade secret is, should be reviewed in detail. Human resource files should be reviewed to confirm all employees have signed confidentiality agreements. The exit interview process should be examined to ensure all departing employees are reminded about post-employment confidentiality obligations. The team also should identify trade secrets that may be licensed to other entities for revenue generation.

The deliverable from an IP audit typically is a written report containing an audit's objectives, the audit plan, the plan implementation process and the results. The report may also identify, evaluate and provide recommendations for any corrective actions. It is advisable that the contents of the final audit report remain highly confidential and limited in distribution, as it will likely contain attorney-client privileged communication. Care must be taken to avoid inadvertent waiver.

Performing an audit to inventory a company's IP assets, and possibly monetizing unused assets to generate revenue, is an excellent step in battling today's shrinking economy and swinging back at the current recession.

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