

# THE DAILY RECORD

WESTERN NEW YORK'S SOURCE FOR LAW, REAL ESTATE, FINANCE AND GENERAL INTELLIGENCE SINCE 1908

## IP FRONTIERS

### Strike back at the recession with an IP audit

As the economy is slowly emerging from the recent recession, companies are looking for alternative ways to boost their revenue. One way is to perform an audit to assess the quantity and value of the company's intellectual property assets.

Normally, IP audits are conducted in response to an external event, like an infringement lawsuit, a financing round, or the sale of a business unit. In current economic times, IP audits are being performed to evaluate these intangible assets as possible revenue sources, through a sale, licensing arrangement or enforcement actions.

The scale of an IP audit is driven by a company's goals. Broad-based audits are performed, for example, in cases of an acquisition or sale. Narrower-scoped audits are performed if a company is faced with a specific problem, such as a patent infringement lawsuit or a breach of a company trade secret.

An audit team is assembled after the scope of the audit is determined. The team is usually comprised of representatives from legal, marketing, sales, human resources and research and development. Outside attorneys may be used to perform the IP audit or serve in an advisory capacity. Typically, such outside expertise is used only if the technology is specialized or possible legal issues may be uncovered that will require remediation.

Following the team formation, an IP audit plan must be created to identify all company departments that need to be investigated and the degree of such inquiry. A time schedule for all auditing tasks should be established with the responsibilities of each team member being clearly defined, including a report format, which should be approved by company management.

A broad-based audit will look at all forms of IP held or licensed by the company. Information concerning the nature of these assets is gathered to provide the audit team with an understanding of the technology and products. Background research may be performed to facilitate the valuation of the IP. Next is the data gathering phase, including collecting lab books, license agreements, invention disclosures and product distribution agreements.

When evaluating patents, a complete inventory of all issued patents and pending applications should be completed. The current legal status of the patents (i.e., expired or current), ownership identification, current use, status of any related legal opinions, identification of corresponding products and whether any

litigation or administrative proceedings have been commenced with regards to the patent that may impact its value should be determined.

All licensed technology should also be reviewed. Many companies license unused IP to others and view this as an excellent source of revenue. The audit team should obtain a complete inventory of all license agreements and evaluate the licensee's compliance with the terms of the agreement and the legal standing of the licensee.

This review should be performed to ensure that the company has properly maintained the patents and fulfilled its enforcement obligations. In the event that any of the license arrangements are non-exclusive, the audit team may determine the value of entering into additional licensing relationships. One of the key endpoints from auditing a company's patents is to identify the IP that the company wants to retain for its current and future use as well as identifying non-core patents that can be either licensed to generate recurring revenue or sold outright to a third party.

Trademark and trade dress audits are different because of the integral role of the marketing and sales departments in ensuring that a trademark is used continuously and in the proper manner.

First, all registered marks are inventoried and their current standing is generated. Trademarks are different from other forms of IP in that they must be renewed every 10 years and in order to renew the mark, one must continue to use the mark in commerce within the same class of goods for which it was originally registered.

If a company is no longer using the trademark, the registration will likely lapse. Abandonment of the mark is presumed after three years of non-use in the United States. The auditors will review in which countries the trademark is registered and whether use monitoring is being performed in these countries. The use monitoring is a way by which the company can also check to see if others are infringing the trademark.

An inventory of applied-for trademarks, whether they are "use" or "intent-to-use" applications, should also be performed. A review of the legal status of these applications and the associated products will assist in establishing their value. Any trademark license agreements that have been entered into should be inventoried reviewed

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for compliance and also undergo a valuation process.

The copyright audit may be non-existent for some companies, but incredibly important for others, such as IT-based technology firms. The first step of auditing copyrights should be to compile a listing of all registered copyrights and review the registrations for accuracy.

Ensuring proper ownership of the work is critical as the general rule is that copyright ownership vests with the individual who makes or creates the work unless the work falls within the "work-made-for-hire" exception. This would lead the audit team to review the employment and independent contractor agreements to ensure that such a provision is provided for and that the creator of the work has signed the agreement before creating the subject work.

Auditors will then review the existence of any license agreements and whether any enforcement actions have been taken related to unlawful copying or reproduction of the copyrighted work. The audit team may investigate whether any unused registered works can be licensed or sold to third parties in order to generate future revenue sources.

Finally, the audit plan should include a review of the company's trade secrets. This will focus on the steps that have been taken to keep the company's special formula, programs,

processes, techniques, customer lists or pricing data secret. In compiling an inventory of the identified trade secrets, the audit team may also discover items that can be exploited as trade secrets by the company in the future. Remedial actions may be recommended to take certain security steps to ensure these newly identified secrets are protected. Such trade secret protection is governed by New York State law. As with the other forms of IP discussed above, the audit team should then identify trade secrets that can be licensed to other entities to generate income or other tangible value back to the company.

The results of the IP audit should be memorialized in a written report which includes the audit objectives, plan outline, the implementation of the plan and the results/recommendations. The report will identify any IP issues that need to be addressed. A valuation grid of the reviewed IP should also be included. The report should remain confidential with limited distribution to avoid inadvertent waiver of any attorney-client privileged communication.

Performing an audit of your company's IP is a great way to identify unknown revenue sources in a sluggish economy.

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