

# IP Audits: Making the Most of Your Intellectual Property

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Is your company paying to maintain patents and trademark registrations that it no longer needs? Has it identified all its intellectual property for which it could collect royalties from potential licensees? Has it taken sufficient measures to mitigate the risk of costly third-party infringement claims? If it is about to divest a product line or division, does it know what issues buyer's counsel may raise during due diligence? If you are unsure, your company should consider an intellectual property (IP) audit to ensure it is maximizing the value – and minimizing the expense – of its IP portfolio.

An “IP audit” is the identification and cataloguing of a company's IP assets, typically for the purposes of determining their legal status, value, and the means to best

protect and capitalize on them. A company also can use an IP audit to identify potential IP-related risks, such as pending or potential claims by or against third parties for infringement, misappropriation or other violations of IP rights. This article outlines the circumstances under which a company might consider conducting an IP audit and provides some guidelines for performing the audit and incorporating its results into the company's strategic initiatives. When an IP audit is performed effectively and efficiently, the resulting cost savings and increased revenues typically dwarf the audit's cost and allow the company to better manage and leverage its intellectual property assets.

## TIMING

Undertaking an IP audit can be particularly beneficial when a company is considering a fresh approach to its competitive position, e.g., in connection with a potential acquisition or divestiture, a new marketing initiative, expansion of a product line or services, or any other corporate change that could affect the interaction between the company's IP and the marketplace. When performed in connection with the launch of a significant new product or service, an IP audit can, among other things, help to identify and mitigate risks of infringement of third-party rights. An IP audit also may be useful for early-stage companies as a way to establish procedures for identifying, protecting and enforcing IP rights, particularly for mission-critical technologies or products. Finally, a significant change in the legal or regulatory landscape often warrants an IP audit to identify the potential effects of the change on the scope and value of the company's IP portfolio.

## SCOPE

An IP audit should include an examination of: (i) patent, trademark, copyright and domain name filings; (ii) trade secrets; (iii) IP license, development and assignment agreements, and similar IP- and technology-focused commercial agreements; (iv) invention assignment and confidentiality agreements with employees and independent contractors; (v) embodiments of

potential unfiled patent applications and unregistered (common law) trademarks and copyrights, such as invention disclosures, promotional and advertising materials, and proprietary software; and (vi) pending or potential IP-related disputes with third parties. Of course, under certain circumstances, an IP audit of more limited scope may be appropriate – for example, to identify appropriate procedures to be used in developing a new product or technology.

## TEAM MEMBERS AND ROLES

The examination typically is conducted by an audit team comprised of one or more IP attorneys (including both in-house and external counsel), plus representatives from each of the company's management, marketing, and technology/R&D areas. The company may consider including an outside IP consultant on the IP audit team if a primary focus of the audit is to maximize the commercial value of the company's IP assets. As an initial matter, the audit team (i) develops an overall plan for the audit; (ii) determines each team member's responsibilities (including identifying one or more team members tasked with coordinating the collection of relevant documents); (iii) identifies the preliminary documents and other subject matter for review; and (iv) determines which present and past members of the company (such as individuals with knowledge of the company's technical, legal, managerial, and human resources functions) to interview concerning IP issues. Because all relevant documents and personnel may not be known at the outset, the audit team should be flexible in revising its plan over the course of the audit. Importantly, the team should take care to preserve the attorney-client and work product privileges that may shield the audit and its results from potential disclosure in litigation or other disputes.

## CONDUCTING THE AUDIT

Before actual audit-related documents can be reviewed efficiently, initial background information regarding the nature of the assets should be gathered and reviewed, including marketing materials, product brochures and, in some cases, a demonstration of relevant technology.

The primary documents to be collected for an IP audit usually include (i) patent, trademark and copyright clearance and prosecution files; (ii) research and development reports, including any journal

articles, published papers and marketing files; (iii) copies of IP license, development and assignment agreements, and similar IP- and technology-focused arrangements; (iv) copies of invention assignment and confidentiality agreements with employees and independent contractors; (v) employee invention disclosure statements; and (vi) any documents relating to pending or potential IP-related disputes with third parties.

In gathering materials relevant to the audit, access and logistics may be of some concern. For example, in addition to current files, historical documents that may have been archived may be needed for a comprehensive review. In addition, materials may be physically located in far-flung offices or on password-protected or otherwise encrypted electronic media. Finally, if the audit is being conducted in a confidential manner, documents may have to be reviewed after regular working hours or in designated areas set aside for the audit.

The document review and interviews typically focus on identifying the following:

(i) IP assets owned by or licensed to the company; (ii) problems that exist with the company's ownership of or other rights in its IP assets (*e.g.*, gaps in the record chain of title, failure to have all rights assigned to the company, expired license agreements); (iii) IP assets that are not sufficiently or appropriately protected (*e.g.*, patentable inventions for which no patent applications have been filed, key unregistered trademarks and copyrights, inadequately protected trade secrets); and (iv) material risks to the company or its IP assets resulting from third-party claims and unauthorized third-party uses of the company's IP assets.

## REPORTING AND RESULTS

As a result of the IP audit, the team develops a company IP database that contains information on each IP asset, such as the owner and type of the asset, the inventors or authors, when the asset was created or acquired, ongoing maintenance or enforceability requirements, and the

expiration or renewal date of the asset. This IP database enables the company to clearly identify and efficiently track both the scope and status of its IP asset portfolio, and add information regarding new IP assets going forward.

The IP audit team then analyzes the information, and decides what action, if any, needs to be taken with respect to each element of the company's IP (*e.g.*, licensing rights to third parties, enforcing rights against third parties, permitting extraneous IP filings to lapse to avoid unnecessary maintenance fees). The team also can identify mechanisms that the company should implement to identify and protect each new IP asset that the company develops or otherwise acquires. The audit team documents these findings and presents them to the company, with recommendations as to how the company can leverage the value of its IP and where IP protection should be increased or, in appropriate circumstances, reduced.