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IP Assets

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Auditing Intellectual Property Assets

Your most valuable business assets may be your intellectual property rights—trademarks, copyrights (or design rights in Europe), trade secrets, and patents. If given appropriate attention, those rights can add to your bottom line and be valuable to your business. Therefore, in certain circumstances, businesses should seriously consider auditing their intellectual property rights. The following is a brief overview of when, why, who, and how to conduct an IP audit.

When to Conduct an Intellectual Property Audit

It makes sense to audit the state of your intellectual property protection in at least the following circumstances:

- **Return on Investment.** If you want to maximize return on investment, it can be eye-opening to inventory the IP assets you already paid to establish, and to brainstorm about how they can be put to better use, or perhaps even be licensed for extra income.
- **Acquisition or Sale.** If you are buying or selling an ownership interest in a business, or its assets, the status of IP protection can affect the price.
- **Financing.** If you are seeking or offering financing, IP rights

can be an important part of the collateral.

- **Investors.** A potential investor will want to confirm that the company's IP rights are in order.
- **Representations and Warranties.** In licenses or other contracts involving IP rights, you have to know what representations and warranties are appropriate.

How Long an IP Audit Takes and What it Costs

It is critical to plan ahead. The time needed for due diligence typically is underestimated. Further, it can be useful to get the information early because some information may affect the terms of any pending deal or the company's business plans.

Costs will vary. Disbursements for searches and their analysis can be a major cost—the wider the range of countries, marks, inventions and copyrights, the greater the expense. It is important to tailor the scope of the audit to the business reasons for doing it.

What Information to Audit

An IP audit should be focused on the information needed to make informed business decisions. If time and money are no object, you should make a thorough investigation of all possible IP rights. But, you can focus the audit on what is truly needed. Here are some guidelines:

- **Trademarks.** Which marks are important, and which are

secondary? Are there plans to expand to other goods, services, or countries? Are there important marks that have not been registered? Should some registrations be allowed to lapse?

- **Copyrights.** What computer software, packaging materials, advertising materials, Web sites, instruction manuals, and other copyrightable items are important? If any of them were created by outside vendors, are there appropriate agreements to assure the company's ownership? Are there any contract restrictions that may limit future uses?
- **Patents and Trade Secrets.** What technology is material to the current or planned business? Should any patent applications be filed? Are there appropriate confidentiality measures in place to protect trade secret rights?
- **Domain Names.** Is there a list of all relevant domain name registrations? Are they all registered in the name of the company? Should they be consolidated with a single domain name registrar? Are there new domain names that should be registered or existing ones that should be allowed to lapse?

How the IP Audit Is Conducted

All audits start with intellectual property schedules, which should be prepared as early as possible. Further searches can confirm whether or not appropriate rights have been obtained, official filings have been made, and whether there are any outstanding liens or contract restrictions that may have an adverse impact.

After you determine which items of intellectual property, in

which countries, are material to the company's present and anticipated business, you may consider auditing these records:

- Trademark Office records
- Copyright Office records
- Patent Office records
- Domain name registrations
- Lien searches in Secretary of State offices and County Clerk offices
- Licenses to and from third parties
- Office policy statements and employee agreements

- Independent contractor agreements
- Litigations and contested proceedings
- Settlements and consent agreements
- Assignment agreements
- Catalogs showing unregistered marks, logos and inventions
- Confidentiality safeguards

Who Should Conduct the IP Audit?

It is advisable to use experienced counsel to help determine the scope of the audit, to order

the searches and to interpret the results.

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