

## THE INTELLECTUAL PROPERTY AUDIT

**Harness the power of innovation.**

Innovative products, services and business practices create competitive differentiators that build market share. Why not protect those advantages and their value?

Whether improving current products or pioneering an industry, an Intellectual Property (IP) Audit helps companies identify what advantages set their business apart from the rest and how to protect those advantages and their value.

An IP Audit should be performed on a periodic basis. In most cases, it arises as a management request motivated by business concerns, such as stock or company valuation or market share. The first step is to evaluate market goals, budget constraints, as well as current and future product development. A strong intellectual property portfolio can help companies maximize market share and valuation.

### IP AUDIT PRIMER

CARR LLP developed this primer to help companies assess their intellectual capital. The primer highlights key questions and activities for each of the steps in an IP Audit including:

- Identify Assets
- Assess Ownership
- Determine Strengths & Weaknesses
- Evaluate Any Liabilities

CARR LLP, a Dallas-based intellectual property law firm, represents emerging businesses to Fortune 100 companies in connection with all aspects of patent, trademark, copyright, trade secret and related antitrust counseling, protection, litigation and licensing. All lawyers of the firm are licensed to practice before the U.S. Patent and Trademark Office. For more information, please visit [www.CarrIP.com](http://www.CarrIP.com) or call 214.760.3000.

## **PURPOSES & GOALS**

1. Uncover unknown assets and catalog known assets.
2. Determine the scope of rights in IP.
3. Discover opportunities to profit from exploitation of existing or untapped IP.
4. Firm up areas where creation and maintenance of IP is lax.
5. Determine IP protection of competitors and its effect on the company.
  - Is the company keeping up with competitors?
  - Can the company box in competitor using IP?
  - Should the company acquire a competitor due to its strong IP holdings?
6. Reduce expenditures for maintenance of IP where commercial importance does not justify the cost. Drop or sell the assets.
7. Create a starting point for IP asset management.

## **STEP 1: IDENTIFY IP ASSETS & COMPANY INFORMATION**

1. Identify all domestic and foreign patents, registered trademarks and copyrights.
2. Identify unpatented inventions and unregistered trademarks and copyrights, trade dress and trade secrets.
3. Review employment agreements, consulting agreements, licensing agreements, settlement agreements and R&D contracts.
4. Review intellectual property renewal and maintenance procedures.
5. Review employee manuals.
6. Review security practices.
7. Review cease and desist letters, complaints and other claims asserted by others relating to intellectual property.

## **STEP 2: ASSESS OWNERSHIP OF IP ASSETS**

### **Patents**

- Is there an assignment? In general, the inventor (e.g., employee or contractor) is the owner of her invention, unless the inventor is an employee hired to “invent” rather than perform mere “design” work. This ambiguity can be cured by a prior written agreement-obligating assignment of all inventions to the company.
- Does the employment or other agreement provide for assignment and cooperation of inventor?
- Was the employee invention developed with company resources? Even if the invention is made without the job responsibility to “invent,” it is possible to secure “shop rights” from the employee, if the invention was developed with company resources.
- Did the inventor have the invention prior to employment with the organization? If so, it may be the prior employer’s invention. To reduce risk of liability, agreements should contain acknowledgments and obligations not to use prior inventions.

### **Trademarks**

With trademarks, ownership attaches to the first to use or apply to federally register the mark, not the first to conceive. However, note that those preparing design aspects of a mark (e.g., advertising firms and contractors) own copyrights in the designs that, absent an agreement requiring assignment of such copyrights, can preclude use of the designs as the intended mark. Title and ownership issues are not a problem in general. Transfers without the goodwill symbolized by the mark and “naked licensing” (i.e. no monitoring of quality or nature of use by licensee), however, may result in the abandonment of the trademark.

### **Copyrights**

As a general rule, the individual author is the owner, unless:

1. Work for hire: the work product was created within scope of employment; or
2. Assignment agreement: the work product is covered with an express written agreement.

*Note: Ownership in copyright is different from ownership in physical copy of copyrighted work.*

### **Trade Secrets**

Generally, trade secrets developed by a company remain the company’s trade secrets as long as the company can maintain them as such.

### **STEP 3: DETERMINE STRENGTHS & WEAKNESSES OF IP ASSETS**

#### **Patents**

- Evaluate the scope of protection afforded by existing patents. Does the patent cover what it should? Have changes occurred?
- Identify any validity issues. Any prior public use, disclosure in a printed publication or offer for sale prior to filing the patent application could affect the validity of the patent.
- Ensure all potential inventions receive management review. Are inventions by employees being disclosed to those in decision making positions? Is the company protecting everything that can and should be protected? Are adequate procedures and systems implemented for this purpose?
- Review types of patents to ensure the company has appropriate protection.
  1. Utility Patents - protect functional or useful inventions
  2. Design Patents - protect ornamental articles of manufacture
- Maintain adequate record keeping. It is important to document the date of invention by employee inventors.
- Monitor upkeep for existing patents. Have maintenance fees of existing patents been paid? Are the patents being kept in force?

## **STEP 3: DETERMINE STRENGTHS & WEAKNESSES OF IP ASSETS (CONTINUED.)**

### **Trademarks**

- Review to ensure all trademarks and service marks are registered.
- Check to see that affidavits of use and renewals are timely filed for registered marks.
- Keep documentation of use of the mark. It is particularly important to document the date of first use of the mark to establish priority of rights in later infringement or priority battles. Annually, evidence of such use should be put in a safe place.
- Identify other uses of similar marks that could destroy or weaken trademarks such as:
  1. Conventional trademark infringement or attempts to register similar marks used for similar goods or services.
  2. Famous marks may be susceptible to dilution by similar marks used by others even though used on widely different or unrelated goods or services.
  3. Uses on Internet (domain names, hyperlinks, meta tags).
- Establish a monitoring program to watch for potential conflicts.
- Review all transfers of ownership. If ownership of the mark was acquired by assignment, make sure the assignor's good will in the mark was also assigned to prevent possible abandonment of mark.
- Assess the opportunity to expand the use of the company's marks into other geographic and product areas.
- Ensure licensing agreements have quality control provisions. Failure to include such provisions may result in abandonment of the mark.
- Identify protectable trade dress and product configuration. Any configuration or appearance of a container, product, packaging, web page or store that indicates a single source may be protected under federal law. Product configurations will require additional proof that consumers associate the appearance with a single source.

## **STEP 3: DETERMINE STRENGTHS & WEAKNESSES OF IP ASSETS (CONTINUED.)**

### **Copyrights**

- Is appropriate copyright notice used (e.g. © 2002 Owner, Inc.)? Use of notice precludes claim of innocent infringement.
- When was the work created?
  1. Works published before 1978 without copyright notice lose copyright protection.
  2. Works published after 1978, but before 1989 have mandatory copyright notice requirement, but can be cured in some instances.
  3. Works published after 1989 do not have mandatory notice requirement.
- Have the works been registered? Registration is not mandatory to avoid loss of copyright protection, but provides certain advantages in the recovery of damages and attorneys' fees in infringement litigation. To secure these advantages, registration must be sought within three months of publication or prior to the onset of the infringement in question. In general, registration must be sought prior to filing a lawsuit asserting infringement of the copyrights.
- Are there potential ownership claims of others in copyright?
  1. Have assignments been recorded?
  2. Does employment or independent contractor agreement call for assignment?
  3. If copyright is assigned from another party, does the company own all rights in copyrighted work?

A company may have an assortment of different rights arising out of the same copyrighted work. Examples of this would be television, movie or video rights arising out of an underlying copyrighted novel or story. Software may be protected under patents as well as copyright.

### **Trade Secrets**

- Does the company have policies and procedures to educate employees about the existence of trade secrets, their importance and measures to maintain their secrecy?
- Has the company executed confidentiality and non-disclosure agreements for both employees and outside parties?
- How is access to trade secrets restricted?
- Do any pending patent applications disclose trade secrets?

## **STEP 4: EVALUATE POTENTIAL LIABILITIES FROM USE OF COMPANY OWNED IP ASSETS**

### **Patents**

A patent does not give the patentee the right to practice its patented invention. It only gives the patentee the right to exclude others from making, using, offering to sell, selling or importing the patented invention.

- Are there any existing patents owned by others that could prevent the practice of the company's patented invention? Core or basic patents held by competitors could prevent a company from practicing a more narrow improvement patent. These competitors may constitute a potential acquisition target based on the patent portfolio.
- Evaluate asserted claims of others.
- Consider conducting a right-to-use study.
- Identify any contributory infringement, selling non-staple component of patented invention.
- Ensure licensing programs do not violate anti-trust laws (i.e. illegal tie-ins, contractual extension of patent term).

### **Trademarks**

- Federal registration can provide incontestable status to users of trademark if the mark has been used continuously for more than five consecutive years from date of registration.
- Evaluate asserted claims of others.
- Identify any prior, similar marks, before adopting and beginning to use a mark. Any prior users of confusingly similar marks can expose the company to liability for trademark infringement.
- Consider conducting availability and right-to-use searches to locate possible trademark conflicts.

## **STEP 4: EVALUATE POTENTIAL LIABILITIES FROM USE OF COMPANY OWNED IP ASSETS (CONTINUED.)**

### **Copyrights**

- Evaluate asserted claims of others.
- Review works leveraging existing copyrights. Derivative works based on preexisting copyrighted works require authorization from the owner of the preexisting work.
- Ensure independent contractor agreements warrant that work prepared for the company is free of any claim of copyright infringement and require assignment of all copyrights to the company.

### **Trade Secrets**

- Evaluate asserted claims of others.
- Do trade secrets infringe on any patents? New legislation provides a “first-to-invent defense” for business methods if in existence more than one year prior to patent application filing.
- Identify claims of trade secret misappropriation. Where did the trade secret originate? Did it originate with the company independently of the claim?

## **COMPANION PRIMER FOR DUE DILIGENCE**

For companies contemplating mergers, acquisitions, licensing and financial transactions, CARR has developed a companion Due Diligence Primer for IP. The information helps companies determine the risks or merits of a particular transaction. For a copy, please visit [www.CarrIP.com](http://www.CarrIP.com) or call 214.760.3000 to obtain a copy.