

INTELLECTUAL PROPERTY AUDIT

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Intellectual Property has become the most effective and dynamic tool for Corporates in today's complex and competitive business environment. Intellectual Property protection and management are the key elements required for organizations to stay ahead of competition in the global market place. Intellectual Property, also termed as intellectual assets, comprises of patents, trademarks, copyrights, designs, geographical indications, circuit layouts etc. The successful acquisition, protection and management of these intellectual property assets and an effective Intellectual Property Management System plays a key an important role in the success and failures of businesses world wide.

The development and implementation of effective Intellectual Property Management Systems provide companies with appropriate information on their intellectual assets as well as the knowledge on their effective worth. This in turn could help companies identify and decide which intellectual property rights are to be developed, acquired and maintained and pave way for the effective management of their intellectual assets.

Therefore, for creating a successful and valuable Intellectual Property Asset Management System, Intellectual Property Audits for auditing and reviewing the current and potential intellectual assets of the company is essential. Such audits would significantly indicate and propose a systematic approach for the management, protection and exploitation of the intellectual assets.

Why conduct an Intellectual Property audit?

Companies own various forms of Intellectual Property that are important to its business operations and ongoing success. Intellectual Property management is not just the management of patents, trademarks and copyrights but also management of other proprietary rights like customers list, data bases, and financial information etc of the Company. Many Companies deal with intellectual property on an ad hoc basis is risky to their business. Companies manage Intellectual property by and large through the options in protecting the intellectual assets, forging alliances with public and private entities at the R&D level, and freedom to transfer / license the technologies, inventions and services to other third parties. Therefore without regular intellectual property audit, the sheer assortment of the various types of Intellectual Property and circumstances surrounding its creation would make it difficult for Corporates to be aware of the full extent of its Intellectual Property Portfolio. An IP audit would help and enable Companies to be in a position to realize the importance of various intellectual property assets in their portfolio. An IP Audit should also be considered as the key elements while formulating the company's strategy, business plans and policy. An intellectual property audit could also decrease the likelihood of infringement of third party intellectual property.

What is an IP audit?

Intellectual property audits, once used primarily as a way to evaluate the assets of a company being acquired, sold, or merged, have become a valuable tool to strengthen intellectual property holdings, protect a company against liability, reduce costs, and even enhance the value of existing assets.

IP audit is an evaluation of all the intellectual property a company owns, and the use of the intellectual property of any other third party. Intellectual Assets that are audited may include copyright in any

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creative works developed in the Company such as product scripts, product manuals, drawings, web site designs, databases used and software used; trademarks/service marks, trade dress (which can include words, designs, packaging, smell or even distinctive sounds), domain names, patents on inventions or product designs, and trade secrets, including proprietary information such as product formulas financial data and customer lists.

IP audit typically includes identification of intellectual assets that are to be protected, enforced, and evaluated at the current level of protection and to determine whether the existing procedures are adequate to protect the company and its intellectual assets. Also, IP audits identify resources being spent to maintain assets that are no longer of value to the Company. Further, the IP audit can also identify potential conflicts (whether the company's rights are being infringed, and whether it may be infringing on other parties' rights), recommend strategies to limit the company's loss of rights and exposure to infringement liability, and identify opportunities to strengthen IP protection. IP audit can also help educate employees to recognize potential intellectual property and use it in a way that does not jeopardize existing rights or infringe on those of others. Audits usually conclude with suggested strategies to maximize the value of existing IP and minimize liability. IP audit also helps in developing strategies for appropriate enforcement activities to be effected by the Company depending upon the nature and quantum of infringement by third parties and how such infringement affects the bottom line of Companies business.

What to Audit?

IP Audit is carried out to:

- Identify inventions (new product, new features, new versions and new processes), trademarks, copyrightable materials, trade secrets
- Identify Intellectual Property which needs patent, trademark, designs, trade secret and copyright protection depending on importance and priority
- Review technology agreements (licensing agreements, maintenance agreements, joint development agreements and other related agreements)
- Review employment and consultant agreements (who owns the IP, work-for-hire provision, non-compete provision, trade secrets protection)
- Identify status of various registrations pertaining to trademark, service mark, patents and other IP rights.
- Review the renewal status various IP registrations.
- Catalogue the list of known and unknown IP assets.
- Develop appropriate strategies and policies for creation, development, protection and enforcement of various forms of IP assets.

Intellectual Property Audit Addresses:

- Recognition and valuation of Intellectual Property assets
- Loss of profit from licensing revenue stream
- Lack of awareness of possible liabilities

IP audit also includes auditing of the Companies contracts and Agreements especially the technology contracts and license agreements. These agreements should be reviewed to determine whether the rights and interests of the business in the technology is used, and whether those rights and interests are consistent with the future plans of the business. IP Audit of the contracts and agreements are reviewed for:

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- The role that technology plays in the future business plans.
- The nature and extent of the Company's rights in the technology.
- Diligence and obligations of the company under such contracts and agreements.
- Verifying and reviewing whether the company adheres to the warranties provided, disclaimers, and damage limitations in the technology agreements.

If the Company is the supplier of technology then the IP audit should ensure that the contracts and agreements are consistent with the policies and goals of the company in offering such technology. The IP audit process will ensure the following during the Audit:

- Exclusivity of the Agreement
- Description of process, product specification that are licensed.
- Timeline for developing the Product.
- Quality and acceptance terms and conditions.
- Assignment and limitation of use of technology.
- Warranty and limitations on liability provisions.
- Insurance cover
- Appropriate ownership issues that is covered for any development done by the licensee
- Technology escrows.
- Dispute resolution procedures.

IP Audit should also cover the use and disclosure of the Company's proprietary and confidential information. The improper use or disclosure of this information could be highly damaging. IP Audit will ensure whether the same has been properly used and protected including use of third party proprietary and confidential information. The audit process will ensure that:

- All proprietary information and confidential information are properly identified and marked appropriately.
- Procedure followed for the security of such proprietary information.
- Review of Confidentiality agreements signed with employees, consultants and suppliers of goods and services.
- Review of the Non-competition agreements.
- Review of assignments of trade secrets, inventions, patents, copyrights, and confidential information.

As the importance of Intellectual Property is growing it is no longer IP is part of the R&D department but it is also used and forms part of all department of a Company. Therefore, regular IP audit can bring about more serious issues about in handling the IP assets and Companies should prepare and plan positive as well as negative contingency. Thus IP audit remains an important planning and organizational tool for all companies.