

Intellectual Property Audits

Alan R. Singleton
Singleton Law Firm, P.C.

Research Park at the University of Illinois
2001 S. First St., Suite 209
Champaign, IL 61820-3654

(217) 352-3900 phone
(217) 352-4900 fax

singleton@singletonlawfirm.com
www.singletonlawfirm.com

Intellectual Property ("IP") Importance

- ▣ Increasingly important as a business asset
- ▣ May constitute the most valuable asset in early stage technology companies
- ▣ Don't overlook in more traditional companies

Intellectual Property ("IP") Importance

Why Companies Care About IP:

- ▣ Freedom to Operate – make sure someone else's IP will not prevent your company from carrying out its business objectives
- ▣ Competitive Advantage – Protect your company's IP so it can be used to gain a competitive advantage in the marketplace through precluding others from utilizing the IP

Ways to Protect IP

- **Copyrights** – original works of authorship, including software
- **Trademarks** – word, symbol or device that identifies the source of goods
 - Company logos
- **Trade Dress** – assemblage of elements in which product or service is packaged or presented
- **Patents** – right to exclude others from making, using, or offering for sale the invention
- **Trade Secrets** – secret information that gives owner a competitive advantage
 - KFC's secret recipe
- **Contracts**- NDAs, JDAs, licenses, employment agreements, consulting agreements, shareholder agreements
- **Internet Issues**- domain name



Hershey Kisses

This candy holds:

- A trademark for its shape (#1,584,608)
- A patent for its method of reducing fat levels in cocoa used (#5,464,649)
- A copyright for commercials made to advertise (PAu-697-741)
- A trade secret on its recipe for producing the milk chocolate candy



Hershey Kisses Trademark Excerpt

Word Mark	HERSHEY'S KISSES
Goods and Services	IC 028. US 050. G & S: CHRISTMAS ORNAMENTS. FIRST USE: 19880930. FIRST USE IN COMMERCE: 19880930 IC 016. US 033 037. G & S: PAPERWEIGHTS. FIRST USE: 19880422. FIRST USE IN COMMERCE: 19880422 IC 021. US 002 053. G & S: ORNAMENTAL CRYSTAL BOWLS WITH LIDS. FIRST USE: 19870904. FIRST USE IN COMMERCE: 19870904
Mark Drawing Code	(3) DESIGN PLUS WORDS, LETTERS, AND/OR NUMBERS
Design Search Code	08.03.01 - Candy bars, (chocolate); Chips, (chocolate); Chocolate candies; Chocolate chips 08.03.03 - Wrapped candies (bite size) 26.11.02 - Plain single line rectangles; Rectangles (single line)
Serial Number	73773592
Filing Date	January 9, 1989
Current Filing Basis	1A
Original Filing Basis	1A



Why do an IP Audit?

- Identify, organize, and review existing IP portfolio
- Quantify the value of IP assets
- Resolve current issues in IP management practices
- Establish procedures to ensure protection of assets in the future
 - Better guarding of trade secrets
 - Docketing system for payment of fees and renewal filings
 - Assignments of IP in employment and consulting agreements
 - Better marking of products
- Add value the company
- Prevent asset losses
- Address gaps in licensing and other agreements
- Minimize risk of third party infringements
- Determine position in relation to competitors



When to conduct an IP Audit?

- Annually to ensure compliance
- "Event Driven"
 - Upon formation of a company
 - Be sure all IP is "in the box"
 - Before acquisition of a company, product, or technology
 - Development of a new product, especially if it may infringe upon third party rights
 - New legal decision about the scope of protection for intellectual property
 - Capital Infusion
 - Impending lawsuit concerning IP
 - Significant license
 - New policy or philosophy of the client



Scope of the Audit

Scope should suit the needs of the client:

- Broad scope if client is investigating all policies relating to IP
- Narrow scope if client is facing possible litigation on particular issue
- Full scope if client is investigating an acquisition or ownership interest in another business
 - Investigate whether seller has adequate protection of its IP
 - Investigate scope of third party rights in seller's assets
 - Whether products may infringe on third party rights
 - Whether seller has hired employees away from competitors under circumstances that may lead to lawsuits
- Audit is not just an inventory but also an analysis



Who should perform an IP Audit?

- ❏ Company personnel (in-house counsel, management)
- ❏ Outside counsel
 - ❏ Should have experience in technology involved
 - ❏ Should have experience procuring and managing IP rights
 - ❏ Should have experience obtaining remedies for legal defects found in audit
- ❏ Should not be the firm that has been providing noninfringement opinions to the company



How to do an IP Audit?

Create an Audit Plan:

- ❏ Define the scope of the audit and the documents to be reviewed
- ❏ Define a schedule for the audit
- ❏ Define responsibilities among the audit team
- ❏ Define the personnel to be interviewed
 - ❏ Attorneys
 - ❏ Brand managers/marketing
 - ❏ Those responsible for websites
 - ❏ R & D
 - ❏ Personnel (employment agreements and policies)
 - ❏ Graphic designers



How to do an IP Audit?

Information Gathering:

- ❏ Nature of assets (product brochures, release notes, etc.)
- ❏ Issues peculiar to the law of a particular state
 - ❏ Illinois employee patent act
- ❏ Background about the technology at issue
- ❏ Gather documents (license and maintenance agreements, distribution agreements, government contracts, federal registration documents, state commercial code filings, employee agreements, consultant agreements, journal articles, published papers, competitive analysis documents, marketing files, patents, lab notebooks, validity opinions, assignments...)
- ❏ Access to company information
 - ❏ Can access only be obtained at certain sites (i.e. corp. HQ)?
 - ❏ Access to computer media
- ❏ Questionnaires and interviews
- ❏ Search of databases (USPTO, UCC filings, etc)
 - ❏ Search inventive employees to be sure all patents assigned



Results of an IP Audit

- ❏ Avoid reducing to writing any findings that might set up the company for a claim of intentional infringement

Written report containing:

- ❏ Catalog of IP assets
- ❏ Development history of technology at hand
- ❏ Plan for economical use
- ❏ Actions to maintain those assets
- ❏ Review of employment and disclosure policies
- ❏ IP defects uncovered during audit
- ❏ Actions to be taken

Acquisition transaction:

- ❏ Whether rights available are required
- ❏ Basis for valuing rights to be acquired
- ❏ Action that must be taken before transaction is consummated or after acquisition



Results of an IP Audit

Filings:

- ❏ Report on patentable technologies currently not protected
- ❏ Copyright, trademark registration applications to be filed
- ❏ Affidavits of continued use of trademarks
- ❏ Maintenance fees to keep patents in force

Procedures:

- ❏ Procedure to ensure appropriate filings are made in a timely manner in future
- ❏ Committee to evaluate patentability and decide whether to file patent apps (cost/benefit analysis)



Ownership Issues revealed by an IP Audit

- ❏ Defects in title to IP
- ❏ Assignments of ownership from consultants
- ❏ Quitclaim from alleged author or inventor
- ❏ Employee inventions within the scope of work
- ❏ License rights from third parties to make derivative works
- ❏ Third party joint ownership issues
- ❏ Defects in patents (copyrights or trademarks as well)
 - ❏ Requests for reexamination or reissue of a patent
 - ❏ Amendments to applications
 - ❏ Certificates of correction



Ownership Issues revealed by an IP Audit

Infringement Issues:

- ❏ Obtain licenses or redesign product
- ❏ Acquisition related audit – try to obtain indemnification from present owner or third party

Acquisition Issues:

- ❏ Key people will not be with company after merger/acquisition
- ❏ Obtain consulting agreements, nondisclosure agreements, covenants not to compete





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