

CORPORATE IP AUDITS

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I.

Intangible Assets are Important

The difference between a corporation's book value and its market value is its intangible assets. This includes its team of employees, client relationships, way of getting things done, momentum, etc. Successful companies to get the most out of both their tangible assets and intangible assets. Unfortunately, while most managers know the value of their building and equipment, who it owns, whether it is insured, etc., they do not have similar knowledge of the corporation's intangible assets. It is impossible for management to intelligently decide what to do with its important intangible assets without knowing what they are and what can be done with them.

II.

Intellectual Property Audit

An Intellectual Property ("IP") audit begins by identifying everything relevant to the corporation's current or potential business that (1) might be protectable (2) by the corporation or anyone else.

This is a three-step process:

- A. **Identify All Intangible Assets.** Each element of the corporation's (1) inputs, (2) resources and processes, (3) outputs, and (4) relationships is identified.
- B. **Which Items Are Protectable?** For each identified intangible element a determination is made concerning whether it is possibly protectable by anyone.

"Protectable" categories include:

- a. Patent
- b. Trademark
- c. Copyright
- d. Trade secret
- e. Rights against Unfair behavior
- f. Agreements

- C. **Who Owns It?** For each identified possibly protectable intangible element a determination is made concerning who does or could own it.

"Who" includes:

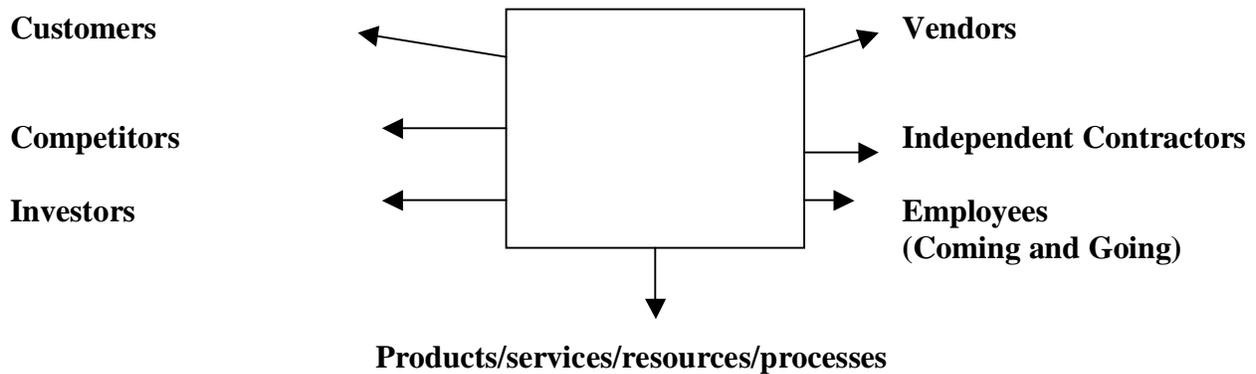
- a. The corporation

- b. Customers
- c. Vendors/Independent contractors
- d. Employees
- e. Corporate Owners
- f. Competitors

Plotting each separate item to be looked at against each possibly protectable category and against all possible entities who might have ownership rights concerning it produces an impossibly complex matrix if carried out exhaustively. Thus, conducting an IP audit needs to be approached with a large measure of common sense that can only be gained by combining a knowledge of applicable law and some practical understanding of the business.

III. Conducting the IP Audit

In practice, an IP audit's first step is to have an attorney who understands the above possibly protectable legal categories (typically, a patent attorney), visit the company's offices and operations and become generally familiar with the company, and what it does, how it does it, who it does it with, etc., to informally fill in the following diagram.



The attorney then combines his/ her knowledge of the above legal categories and his newly acquired knowledge of the corporation's business to produce a formal or informal list of specific inquiries. Management delegates these inquiries to in-house personnel, the answers are forwarded to the attorney, and the attorney prepares a report to management concerning the status of the corporation's IP, dangers to the corporation's IP, what can be done to improve the corporation's IP position and the cost of each step.

Management cannot intelligently decide what, if anything, it should do concerning the corporation's IP until after considering the results of an informal or formal IP audit. Since most competitors in any market have reasonably similar tangible assets, what management decides (or fails to decide) to do with the business' intangible assets is important to the business' success.

IV.
Example IP Inquiries

An illustrative non exhaustive list of IP questions typically asked of corporations in an IP audit are:

1. Have all knowledge employees signed short agreements assigning their every happy thought to us, agreeing to not compete or raid us when they move on and to confidentially arbitrate all disputes with us?
2. Are our trademarks being properly used? Are our important federal trademarks and trade dress federally registered? Are the registrations docketed?
3. Have copyright assignments been obtained from all vendors, consultants, employees, independent contractors? Copyright registrations obtained on important works? Copyright notices posted?
4. Do we know who originated each of our items, processes, source code, customer lists, operations manuals, advertisements, etc. Are these in the public domain or do we have assignments and are we properly protecting them?
5. Do we have anything that is protectable with a utility or design patent? Do our competitors? Does our management and marketing staff understand how business method patents can help or hurt the company?
6. What patents, trademarks copyrights and trade secrets do our competitors have?
7. Are others using any of our trademarks anywhere?
8. Do we hope to ever expand outside of the U.S.? Do we have trademark registrations in those countries or are we blocked by others who have registration there?
9. Do we have a trademark watch service to protect us from others obtaining registrations on our trademarks in relevant jurisdictions?
10. Are we protecting our trade secrets vis-a-vis employees, vendors, customers, independent contractors, competitors?
11. Are we taking precautions against being poisoned with the trade secrets of others?
12. Do we have the domain names we want, including common misspellings and other top-level domains (.com, .biz, .aus).

V.
Conclusion

A company cannot be intelligently managed unless management can identify and measure its intangible assets and understands its options concerning them. Buyers will pay more for a company which can show it has protected its intangible assets because that company is more likely to be profitable in the future than one which is (1) unaware of these important matters, (2) not leveraging them, and (3) unprotected from disasters and litigation concerning them.

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SUMMARY OF INTANGIBLE PROPERTY RIGHTS

	PATENTS	TRADEMARKS	COPYRIGHTS	TRADE SECRETS
PROPERTY PROTECTED	Utility or design features of objects or processes.	Words, symbols, or features used to identify your goods or services and distinguish them from others.	Anything that is creative and original and not primarily physically functional.	Any secret that gives you an advantage over those who do not know it.
REGISTRATION	U.S. Patent & Trademark Office and each foreign country where rights are desired.	U.S. Patent & Trademark Office; Texas Secretary of State, and each foreign country where rights are desired.	U.S. Copyright Office	None
REQUIREMENTS FOR PROTECTION	<ol style="list-style-type: none"> 1. Useful, novel and non-obvious. 2. Patent applied for within one year of offering the invention for sale or making it public. 3. Issued patent in subject country. 	<ol style="list-style-type: none"> 1. Use the mark to identify sales of goods or services or “intent-to-use” federal application. 2. Registration is not necessary, but very helpful. 	<ol style="list-style-type: none"> 1. Originality (creativity). 2. Notice of copyright (not necessary, but very helpful). 3. Registration (not necessary until suit, but <u>very</u> helpful). 	<ol style="list-style-type: none"> 1. It gives you a business advantage. 2. Keep it secret. 3. Make those who know the secret aware it is your secret.
DURATION OF PROTECTION	Utility: 20 years from date of filing. Design: 14 years (both subject to payment of maintenance fees)	Common Law: No limit. Registrations: 10 years, renewable indefinitely as long as you keep using it.	The earlier of 75 years from publication or 100 years from creation for work for hire. Life, plus 50 years for an individual.	Until it is no longer secret.
PUBLIC NOTES	Pat. Reg. No. _____ OR Pat. No. _____	TM if not federally registered; “®” if federally registered.	“Copyright” or “©, year first published, claimant. Example: Copyright 1996 Mark Miller	Any notice of its secret nature. Example: “Confidential Property of _____”.
INFRINGEMENT	Utility: Every claim limitation in the patent is found, either literally or equivalently, in the accused device or method. Design: Accused design has a “substantially similar” overall appearance.	Plaintiff’s mark is protectable and the public will likely be confused between goods or services identified by Plaintiff’s mark and goods and services identified by Defendant’s mark.	Plaintiff’s work is protectable, Defendant copied Plaintiff’s work and Defendant’s work is substantially similar to the protectable part of Plaintiff’s work.	Plaintiff’s trade secret is protectable and Defendant knowingly misappropriated it to Defendant’s benefit or Plaintiff’s harm.

* This very simplified summary is to be used only for educational discussion purposes.