Lowndes

Insights

IP Audits: Assess and Optimize Your Intellectual Property

Article
Orlando Inno
01.20.2021

For many companies, their intellectual property is their life's blood. Whether it be trademarks protecting their brands' individuality, patents protecting their products, trade secrets protecting their formulae, or copyrights protecting their expressive creations, each plays an important role in the business and the ultimate value of the organization. While often of significant value, all too often intellectual property is overlooked until it is too late. Enter, the intellectual property (IP) audit.

An IP audit is a review of a company's intellectual property assets and policies, typically performed by an intellectual property professional or informed in-house counsel. An IP audit can aid a company in determining whether it is managing its assets in compliance with intellectual property laws and optimizing protection, either through licensing or ownership, of any intellectual property that it uses.

Depending on their scope, IP audits fall into one of three categories:

- **General IP audits** are usually the broadest in scope as they tend to involve marshalling all the various forms of intellectual property that a company uses and then determining the extent to which the company has valid rights to such use. This could include a comprehensive review of intellectual property assets, rights agreements, employee manuals, and company policies and procedures. General audits are particularly useful for companies when implementing new standards, policies, or internal procedures, when preparing for reorganization, or when creating new marketing strategies. Often, general audits will yield surprising results for even the savviest companies.
- **Due diligence audits** are narrower in scope and usually completed in anticipation of an upcoming transaction or event. Potential mergers, acquisitions, joint ventures, asset purchases, and initial public offerings (IPOs), as well as new product and service launches, often lead to a due diligence audit. These audits review previously identified assets, assessments of ownership, and the business risks associated with the transfer and continued use of those assets. While more focused on specific intellectual property ownership or licensing, these audits can also reveal shocking results.

Related Attorneys

Jon M. Gibbs

Alyson C. Kendust

Related Expertise

Intellectual Property

- The narrowest type of IP audit, the **limited audit**, is usually focused on a specific intellectual property asset, such as a logo or a formula. The limited audit can be used to determine the asset's value, as well as validate a company's legal position regarding that specific asset. For example, a company may adopt a position of non-infringement or invalidity of a competitor's intellectual property based on the findings of a limited audit.

The steps of any IP audit include taking an inventory of all known intellectual property assets, determining proper ownership and chain of title of the assets, determining whether any assets are being infringed by, or infringe the rights of, third parties, and establishing a plan to correct any defects, protect the assets, and establish proper policies and on-going management practices. The IP audit can also be tailored to fit the immediate needs of the company.

No matter how broad or narrow the scope, audits at all levels yield surprises, most often in the way of ownership issues. Simply remitting payment does not mean ownership has transferred to the payor, particularly when an independent contractor is involved. For example, if a company engages an independent contractor to assist in the creation of intellectual property assets, documentation containing clear direction as to the relationship of the parties, ownership of the product, and timing for ownership vesting are essential. Ensuring proper transfer and ownership of intellectual property, without defect in title, is simply smart business practice.

IP audits are conducted for a myriad of reasons, with companies potentially benefiting from the results in a number of ways:

- Reduce operating costs by identifying and removing any intellectual property that is no longer of value and therefore no longer requires maintenance.
- Identify important licensing opportunities and issues, such as underutilized intellectual property that could yield more value if licensed to another party. Conversely, an audit may identify third-party intellectual property for which a license should be obtained.
- Lessen significantly the workload associated with mergers, acquisitions, or transfers by establishing clear title with the respective agency, greatly reducing the burden of due diligence or transfer.
- Establish a better anti-infringement position by gaining excellent insight into similar technologies owned or used by competitors for purposes of infringement determinations.

Intellectual property is often a company's most valuable asset and distinguishes it from competitors. Taking an active position and procuring an IP audit by an intellectual property professional provides a multitude of advantages and should be regularly considered as a best business practice.