

Intellectual Property Audits: Know your IP assets to effectively manage them

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August 2015

In a very competitive environment, businesses are striving to keep an edge over their competitors and this is often realised through their IP assets.

IP assets come in various forms, including patents which protect inventions, trademarks which protect and identify the source of names and logos, copyright which protects works like literature, computer programmes and architectural designs, and designs which protect the aesthetic features of an object. Trade secrets may be any formula, pattern, device, or compilation of information which is used in a business and which may give the business an advantage over competitors who do not know or use that secret.

Due to the importance of IP to any business, it should be properly managed like any other tangible assets of the business. In order for a business to put in place a proper management strategy for its IP assets and to maximise the value of such assets, it has to first know and understand which IP assets it owns; hence the importance of IP audits. In this article we shall shed light on IP audits, what they mean and why they are important.

What is an IP Audit?

An IP Audit is defined by the World Intellectual Property Organisation as a “systematic review of the IP assets owned, used or acquired by a business. Its purpose is to uncover under-utilised IP assets, to identify any threats to a company’s bottom line, and to enable business planners to devise informed strategies that will maintain and improve the company’s market position” (IP Audit – A “How to” Guide: http://www.wipo.int/sme/en/documents/ip_audit_fulltext.html#).

An IP audit should cover the following: IP owned by the company (to ensure proper protection is in place), IP licensed to others or licensed to the company (to ensure compliance with the company’s policies and contractual obligations), and IP owned by others (to ensure there is no risk of infringement). By conducting the audit, a company will determine, in the light of all the information obtained, what actions are required to be taken, with respect to each IP asset or portfolio, to serve the relevant business goals of the company.

It is very important to identify the purpose of the audit to identify its scope. The scope of an IP audit will differ depending on when it is required and what its purpose is.

IP audits are typically conducted by external IP lawyers. Often, the IP Lawyer, who has a broad range of experience with various types of IP and IP valuation matters, will evaluate and review the company’s portfolio to determine where the appropriate IP lies. The company may appoint a point person for the lawyer to deal with—ideally, someone who knows the IP concepts and technical aspects of the company’s business. When an IP portfolio’s monetary value is being reviewed, the IP auditing team may also include an accountant or economist who has dealt with IP valuation issues.

What an IP audit will achieve?

- Identify and locate the IP owned by a business: an IP audit will inform the company about the IP assets it owns which will help a company to develop and properly exploit such assets. These assets will include those created by the company or those acquired from third parties. An audit will also identify any defects in the ownership or title of the IP assets and how it can be resolved.
- Strengthen and enhance the existing IP: an audit will identify actions needed to protect the existing IP rights and enhance it. For all intellectual property assets there are certain requirements set by the relevant laws for its protection. For example, a trademark shall be registered with the relevant authority to have a value and be protected, and a copyrighted material shall be deposited with the relevant authorities for ownership confirmation purposes. To protect an invention through a patent, certain requirements must be met and actions be taken. If this is not taken it may result in the loss of the protection. Hence, an audit should enhance the value of the IP assets by ensuring they are sufficiently protected.
- Identify new IP assets: As explained above, IP rights come in different forms and each has certain requirements for its creation and protection. Many businesses do not know about such rights or how to actively protect them, which may result in overlooked IP assets which are not utilised by the company. An audit should identify such unutilised assets and the opportunities that they may afford, such as licensing.
- Identify the risks associated with the use of IP assets: with an IP audit a company should anticipate any possible infringements of its own IP and identify any risks of infringement of third parties' IP rights. The latter may occur when a company thinks that it owns certain IP rights which the audit reveals that it does not and there may be a risk of infringing a third party's right. In addition, an audit may reveal weaknesses in the protection of the IP assets. For example, the improper use of a trademark may result in the loss of its distinctiveness and accordingly the loss of its protection. The audit should therefore provide the company with the actions to be taken to avoid or minimise such risks in a timely manner.
- Facilitate business transactions and deals: once the IP assets are identified and risks are determined, a company will have better understanding of its position in any transaction or deal that involve its IP assets.
- Determining the IP policies and procedures: an IP audit should determine whether a company has proper IP policies in place or whether they need to be enhanced and improved. Manuals and guidelines for IP protection and management can be prepared based on the information revealed by the audit.
- Conducting an IP audit requires the review of documents including registration certificates for IP rights (trademarks, patents and designs), employment contracts (to identify ownership of copyright and patent rights), and other contracts with third parties such as contracts with consultants and design agencies, non-disclosure and confidentiality agreements, licensing contracts and many others.

In addition to reviewing documents, it is essential to conduct interviews with the key personnel in a company, who will be identified based on the company's industry and nature of the IP involved in its business. The collaboration between an IP lawyer and the business' personnel is vital to the success of the IP audit.

When is an IP audit required?

1. Start up audit: a start up business may need to conduct an IP audit at the very beginning in order to understand its possible assets and how to protect such assets and to also avoid any potential risks of infringing third parties rights. For start-ups, an IP audit will help from the outset in forming their intellectual property policy and setting up initial procedures to protect the main IP assets of the business.
2. General audit: established companies should also conduct IP audits regularly (on an annual basis). The purpose of such audit is to ensure that all IP assets are properly protected and reflect the current and accurate status of ownership, thus minimising the risk of losing any of such IP assets. For example, trademark protection can be lost due to non-use for a certain period of time; hence, if such risk is imminent for any trademark, an audit should identify the risk and provide a solution to lessen the risk and maintain the protection.

3. Event driven audit: this may be required when a specific event is to happen, which may affect IP rights. For example:

- a significant corporate change, such as a merger or acquisition;
- a transfer or assignment of an interest in IP;
- buying or selling a business division;
- the implementation of a licensing programme, whether the company is the licensee or licensor; or
- the implementation of new strategies for the company, new marketing plans or expansions into new products, services or new jurisdictions.

Limited purpose audit: this is a very narrow audit that is usually conducted for a certain situation, such as a significant change in the IP Laws which may affect the protection of certain IP assets. Another situation that may require such an audit is when a company makes a plan for IP filing in a foreign country, as it will help the company to understand the other country's IP laws and processes, which may affect its rights.

An IP audit is very important and should be a focus for each business. An IP audit will help a business to have a full picture of its IP assets and ensure these assets are properly protected and maintained. This, in turn, will assist in managing the IP assets, enhancing their value and minimising any risks associated with their use. Conducting an IP audit should be a regular practice for any business. A first time audit may be painful, but with assets identified and proper strategies are put in place for their management, subsequent audits will become easier. In addition, having a proper IP management policy will facilitate and ease business transactions, saving both time and cost. Regardless of how laborious an IP audit may seem, it is an essential tool for any business and the opportunities and risks it may reveal are invaluable.