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Your Company Has Intellectual Property: How to Identify Using a Self-Audit

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Remember when letters were written on paper rather than electronically and tangible assets, such as real estate and equipment, provided the majority of economic value of a company? In those days of old, companies strategized as to the most effective way to manage and maintain equipment, production lines, and plants to provide maximum value to the owners. Those days have been replaced with the technology and information age, where the top speed of computers increases on a daily basis; electronic communications are preferred and required over paper; and intangible assets (comprised mostly of intellectual property assets) can easily exceed the stated book value of the tangible assets by a multiple of two or three.

In this technology age, the share of company value attributed to intellectual property has dramatically increased. Much of the market value in the chemical industry is attributed to the patents of the various companies. However, in other industries, trademarks, trade secrets, copyrights, and patents all add to the value of companies. For example, two of Coca-Cola's most valuable assets are its name, which is protected by trademark, and its formula for the syrup, which is protected by trade secret.

With such large shares of companies' market value attributed to intellectual property assets, one might think that companies strategize as to the most effective way to obtain, manage, and maintain intellectual property assets to provide maximum value to the owners. However, management and financial approaches are designed to recognize tangible assets. All too often, management does not consider the value of intellectual property and other intangible assets. Consequently, intellectual property assets remain undeveloped or not maintained properly.

In order to maximize the return from intellectual property assets, it is essential that intellectual property be properly identified and developed to understand related risks and opportunities. Many companies simply state that they have no intellectual property, but in reality, no effort is made to fully understand what intellectual property is and how it can enhance the value of the company. If a company does not know what intellectual property it has, it cannot manage it and protect it from loss.

Just ask the simple question, does your company have technological competencies or other intellectual property assets (i.e. names, client lists, business information, computer programs) that can translate into market advantage? Generally, the answer to that question is yes. At a minimum, every business has confidential information (i.e. customer lists) that they do not want their competitors to know. Time and money has been spent to develop the confidential information, and that information gives the company a competitive advantage. However, many companies tend to minimize the importance of keeping this information confidential and do not take the appropriate steps to protect it, thereby diminishing the value of the intellectual property asset. This is just one example of a missed opportunity to fully develop an intellectual property asset. It is advisable for a company to conduct an audit to determine the extent and importance of its intellectual property assets.

The goal of the audit is to raise the visibility of intellectual property and to facilitate the consideration and implementation of procedures to obtain and protect intellectual property assets; to identify new opportunities; and to avoid the problems associated with the intellectual property rights of other companies or individuals to prevent costly disputes. In addition, knowing what your intellectual property assets are can help you optimize business opportunities. The following list is an aid for your company to recognize areas of excellence and to identify areas of deficiency, which can be corrected to create or increase the value of the assets.

Self-Audit Checklist:

Are written agreements in place with all employees?

Employee agreements should have provisions which require the employee i) to disclose any invention (whether related to a product or process) to the company and to assist the company in obtaining the appropriate intellectual property rights; ii) to assign all rights in any intellectual property, including trademarks, copyrights and patents, to the company; and iii) not to disclose information which the company maintains as confidential to anyone outside the company, whether during or after the term of employment.

Are written agreements in place with your suppliers and vendors?

These agreements should include provisions that require your vendors to assign any intellectual property rights to your company for work that the company pays for. This can be of particular importance if you have websites or computer programs developed for your company by a non-employee. Without written assignments, you may be prevented from effectively modifying your website or computer program. You may not own the rights to the website or computer program even if you paid to have it developed!

Do your agreements include appropriate intellectual property indemnity clauses?

For example, when you purchase products from a vendor, does the vendor indemnify your company against any infringement action brought by a third party against that product?

When adopting a new name for a product or a service, do you make sure that your name does not cause confusion with an existing name of another product or service?

A trademark or service mark is any word or symbol used to identify one's goods or services from the goods or services of another. Therefore, when adopting a name, a search should be conducted to ensure that no confusion is created. It is much easier and much less expensive to change a name before the goods or services are marketed.

Once you determine there is no confusion with other marks, have you registered the mark with the United States Patent and Trademark Office and the appropriate foreign trademark offices?

While registration is not required, the registration of a mark can prove beneficial. If the goods or services are to be used in several counties, registration in each respective country should be pursued.

After a mark is in use, is a procedure in place to review all of your brochures and publications to ensure that the marks are used properly?

If a mark is not used properly, the mark, and the value of the mark, will be lost. Examples of marks that have been lost include aspirin, escalator, trampoline, nylon, kerosene, and linoleum.

Are appropriate copyright notices affixed to published materials and copyright programs?

While copyright notices are not required, placing the appropriate notice on the material can prevent others from claiming to be innocent infringers and can also provide other procedural benefits, including enhanced damages if someone misappropriates your copyrighted materials.

Have employees been instructed not to make wrongful copies of periodicals?

Wrongful copying (including photocopying) of copyrighted material can result in substantial liability. Although the "fair use" doctrine may provide some defense, it is important that all employees understand that their actions may create significant risk.

Do you limit access to your company's confidential information and place an appropriate legend on all confidential information including software and drawings?

A clear confidentiality/trade secret policy should be in place and communicated to all employees. The policy should state that all people, whether employees, vendors, customers, independent contractors, or the like, who have access to confidential information must agree, in writing, to keep such information confidential.

Has a procedure been created and communicated to employees to ensure that all inventions are communicated to a designated contact within the company?

Companies and inventors tend to minimize the innovation required to develop or enhance a product or process. A systematic approach to the review of inventions can minimize the possibility of an invention being overlooked.

Are patent applications promptly filed once an invention is created?

It is important to file the application as quickly as possible once the invention is complete.

Are all patent applications reviewed to ensure that the protection obtained provides the marketing advantage desired?

It is important that technical and business people be involved in the patent application process to make certain that value of the asset obtained in maximized.

Are timely investigations conducted to prevent the possible infringement of others' patents by the introduction of a new product?

If your product is held to infringe the patent of another, your company can be ordered to immediately stop production of the product and can also be ordered to pay a large damage award to the other party. In order to minimize this risk, it is prudent to avoid the patent rights of others.

Do all personnel involved in R&D maintain log/diaries with respect to inventions and discoveries?

The proper documentation can be extremely valuable if someone challenges your company's right to the intellectual property. Documentation also enables identification of trade secrets so proper protection can be given to such trade secrets.

Are appropriate patent notices placed on all relevant products or their packaging?

The appropriate notices can increase damages if your patent rights are infringed. However, the way you mark your products must be reviewed if you intend to ship your product outside of the United States because laws on unfair competition vary from country to country.

Once your company understands how to find, develop, and maintain its intellectual property assets, those assets can be used strategically by your company to increase its value, contribute the assets to a joint venture, pledge the assets as collateral for a loan, increase the profits by collecting royalty income from licensing the assets, or in other beneficial ways that fit the business plan of your corporation and increase stakeholder value.

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