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“Tip of the Month”

What is an Intellectual Property Audit and Why Should You Periodically Do Them?

The intellectual property audit (IPA) is a procedure - or more appropriately a plan created by an audit team - to realistically and creatively assess what intellectual property assets are owned, the strength of those assets and what opportunities exist for leveraging those assets. It is an excellent way for a growing company to prepare for a buyer or a merger partner's due diligence process in order to ensure that gaps in the chain of title of the assets are filled or any potential disputes over ownership are resolved. The results of the IPA may also be necessary to support the company's proposed valuation if and when it is a target in a Merger and Acquisition transaction. The IPA also provides a good opportunity to examine one's current Intellectual Property docketing and database management systems.

The IPA plan outlines the following:

1. the specific areas of inquiry (e.g., divisions, lines of business, affiliated or non-affiliated agency operations);
2. the scope of the inquiry (e.g., only registered assets or a broader scope);
3. the IPA timetable;
4. the responsible parties for each part of the IPA; and
5. the form of the final report to be produced.

The audit team will identify those intellectual property rights such as patents, copyrights and trademarks that have already been registered or are in the process of being registered. Next, they need to obtain copies of all affiliate agreements (e.g., administrative services, cost allocation), employment, consulting agreements (including web site design agreements), license and maintenance agreements, joint venture agreements, distribution agreements, security documents and UCC filings, confidentiality agreements, litigation files (including outside counsel responses to auditor's letters), source code escrow agreements (in connection with software), any documentation relating to “clean room” development of software, database licenses, and relevant corporate policy statements, including document retention policies.

After identifying and organizing the relevant documentation, the audit team then prepares an index of the materials, noting with respect to each intellectual property asset:

1. the nature of the company's ownership interests and whether the company's property interest is in doubt;
2. any restrictions on the use of the asset;
3. the asset's relevance to the core business of the company and its connection with other key non-IP assets of the company;
4. whether the asset has been pledged, or in any other way encumbered; and
5. potential for a third party claim of infringement or damages due to the company's use of the asset.

If you need help in setting up an intellectual property audit and audit plan, we are here to help. Please call us at 603-668-1971 or contact us using e-mail through the Internet at *Meslaw @ aol.com*.

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