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§ 206:44. Executive summary for clients regarding intellectual property audits

CLIENT EXECUTIVE SUMMARY OF INTELLECTUAL PROPERTY AUDITS

For technology-based companies the most significant asset is generally their intellectual property rights—patents, copyrights, trade secrets, and trademarks—and there is a real and substantial risk to those companies if they fail to take the necessary steps to preserve the value of these assets. In order to analyze the legal risks in this area, and take appropriate steps to minimize and manage those risks, companies should conduct regular audits that focus upon the creation of the assets and ownership rights therein; the procedures used to perfect and maintain all legal rights in the asset; and the risk that the use of the assets might infringe upon the valid legal claims or the contractual rights of others. Some of the fundamental principles of technology management for founders and other members of the executive team include the following:

1. The audit process begins with the collection of information through a review of statutory intellectual property rights, business information being protected as trade secrets, technology rights agreements, employment and consulting agreements, court filings and correspondence relating to actual or potential litigation with respect to technology used by the company, questionnaires, searches of company files, interviews and a review of the content on the company’s websites. Once the information has been collected, it should be carefully subjected to ownership analysis, perfection and protection analysis, valuation analysis and infringement analysis. If appropriate, a report or summary of findings and proposed remedial actions should be prepared and delivered to the senior management of the company.
2. The information collected during an intellectual property audit can be used for a number of different purposes: whenever the investigation is done in the context of a proposed transaction involving technology rights, the information will be used by both parties to negotiate, structure, and document the terms of the transaction; training company personnel on proper procedures for protecting the company’s intellectual property rights; identifying remedial actions which might be taken in order to enhance the competitive utility of the technology assets; and improving the procedures which the company uses to protect its intellectual property rights (e.g., developing a corporate patent program or implementing a trade secret security program).
3. The analysis of ownership rights requires a review of public records, agreements with employees and consultants involved in the development of innovations that might be eligible for intellectual property protection, and both inbound and outbound license agreements. Once ownership rights have been determined, the company’s technology portfolio

should be reviewed to ensure that the various components thereof have been perfected and kept up to date. An investigation should be done to verify that patents remain valid; and all statutory registrations should be maintained, by the filing of appropriate fees, and renewed. The company's trade secret protection program should be fully reviewed. With respect to technology rights licensed from third parties, contractual restrictions and covenants should be reviewed to verify that the company is not in default.

4. There are at least two common areas of concern in assessing the possibility that the company will become subject to a third party infringement or misappropriation claim. The first arises when employees or independent consultants may have used the trade secrets or statutorily protected rights of a former employer or hiring party in developing new products for the company. A second set of issues is created when a new product or service is substantially similar to an existing product or service of a third party, since an allegation might be made that the new work has been unlawfully "copied."

5. Even though the company may have clear title to its intellectual property assets, and the use thereof does not infringe upon the rights of third parties, there nonetheless may be various other limitations and restrictions which should be accounted for in assessing the commercial utility of the technology. Among the areas of inquiry would be restrictions and limitations which may have been imposed in contracts pursuant to which the technology rights are being used, as well as clouds raised by litigation or similar disputes surrounding the intellectual property rights.

6. The intellectual property audit may reveal unprotected technology, defects in the chain of title, or that a third party has rights in the technology. Where there is a defect in the chain of title, remedial action may include obtaining written assignments from parties that may have an interest; licensing the rights of third parties; reverse engineering the technology or part thereof; or using "clean room" procedures to independently develop the technology or part thereof.