

Intellectual Property (IP) Audit

A Legal Perspective

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Executive Summary

The world of today is a world of technology, creativity and innovation, where in the blink of an eye old gets replaced by new. The world-wide adoption of the internet and related technologies, rapid dissemination of information across territories, and the zeal to explore more and create something new every day have only augmented this process. While this is an optimistic phenomenon, it poses a number of challenges in managing and leveraging knowledge, especially when it is in the form of intellectual property (IP).

All businesses, regardless of their size, nature or sector use some form of IP to provide differentiation and successfully conduct their businesses. The IP is generally in the form of trademarks (i.e. the logos, brand name, product name etc., of any enterprise), copyrights (i.e. the original literary, dramatic, artistic or musical work created by the enterprise), designs (i.e. of their products), patents (i.e. the new or innovative products created/developed by the enterprise), know-how, etc.

IP, when exploited properly, becomes an important asset of an enterprise and can play an instrumental role in helping the enterprises achieve their foremost objectives of profitability, productivity and market leadership. Recent examples in this regard are: Nokia expecting to earn USD 615 million from licensing deals from 2012 onwards¹; Google's purchased Motorola Mobility for USD 12.5 billion in order to get access to over 17,000 patents and 7,500 that are awaiting approval.²

The problem however, arises when an enterprise fails to realize the full worth of its IP and ignores the need to protect it. Main reasons for such an overlook are: 1) that the concept of 'assets' has traditionally been associated with 'physical assets' and, thus,

enterprises fail to recognize the value that IP can add to their business; 2) given the subjective and flitting nature of the value of IP, the real value is often difficult to ascertain and factor in. The lack of diligence in valuating and protecting IP is evident from the fact that many business enterprises regard the expenditure for registering and defending IP as an unnecessary expense. Furthermore, the enterprises who are keen on protecting their IP also falter, because of the lack of proper guidance and processes for implementing IP management techniques.

Having an effective and efficient IP management and protection system in place helps enterprises recognize the full breadth and strength of their IP and capitalize on their IP to its optimum. Not having such systems may lead to a loss of lucrative business opportunities. Further, enterprises may also run the risk of becoming an easy prey to competitors and "copycats", who may misappropriate the business advantage.

The solution is to conduct an 'IP Audit' or an 'IP Diligence,' which can help enterprises understand the IP owned by them and the value addition it provides to their business. An IP audit will also help a company in safeguarding against unauthorized use of third party IP rights as well as third party's unauthorized use of company's IP.

In this paper, we have: (i) explained what an IP Audit is; (ii) emphasized the significance of conducting an IP Audit; (iii) described the mechanism of conducting it; and (iv) analyzed various components that are involved in conducting an IP audit. We aim to provide a guiding tool for businesses, organizations, creators of intellectual property and various other stakeholders.

1. www.envisionip.wordpress.com/2012/07/19/530/ as last visited on November 23, 2012.

2. <http://money.cnn.com/2012/05/22/technology/google-motorola/index.htm> as last visited on February 6, 2013.

1. Introduction

An enterprises' value is primarily determined by the economic worth of its assets and what the various stakeholders – shareholders, creditors, government, consumers, etc. perceive the importance of the enterprises and its assets to be.

The assets owned by an enterprise may be broadly divided into two categories:

- i. *tangible or physical assets* – such as land, building, machinery, infrastructure; and
- ii. *intangible assets* – such as brand, skilled employee-base, organizational knowledge and processes, intellectual property and the rights therein including patents, copyrights, trademarks, designs, know-how.

Conventionally, physical assets have been responsible for the bulk of the value of an enterprise, and were also considered to be largely responsible for determining the competitiveness of an enterprise. The situation is however changing today as intangible assets increasingly form part of a business's intrinsic value. Even in commercial transaction, such as joint ventures, mergers, acquisitions, manufacturing, purchase or distribution arrangements, etc. intellectual properties play a major role in decision making.

This prompts the need of an effective IP protection and portfolio management system, which can be achieved through the process of an IP Audit.

I. Meaning of Intellectual Property

According to the World Intellectual Property Organization (“WIPO”)³, Intellectual Property

(IP) refers to the creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce.

Intellectual property is divided into two categories:

- Industrial property, which includes inventions (patents), trademarks, industrial designs, and geographic indications of source; and
- Copyright, which includes literary, artistic, dramatic and musical works such as novels, poems, lyrics, plays, films, drawings, paintings, photographs, etc. Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and those of broadcasters in their radio and television programs.

IP is not equivalent to the term Intellectual Property Rights (“IPR”), though the two are often used interchangeably. IPR refers to the rights related to IP. For e.g. an idea or an invention is regarded as IP whereas the right associated with such IP (i.e. a patent) is considered as IPR.

II. Meaning of Audit

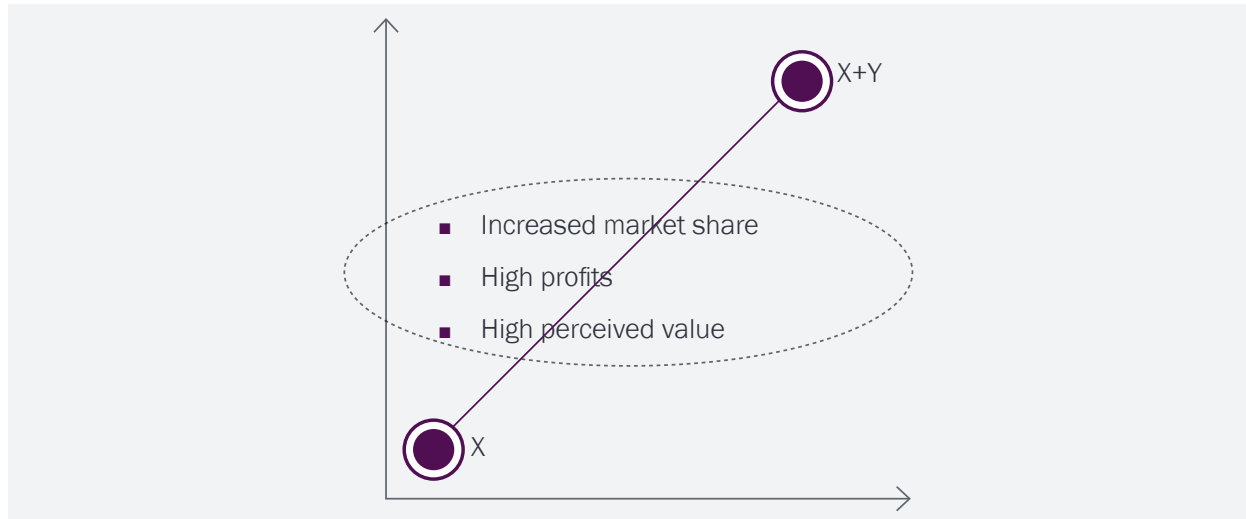
‘Audit’ in normal parlance, refers to a detailed, formal examination and verification of the accounts and processes of an enterprise, which is undertaken to understand the overall picture of its financial position and good standing in the market. An audit is followed by a report on the findings of the diligence, which can be used by the enterprise for planning the future growth of business.

3. The World Intellectual Property Organization (WIPO) is a specialized agency of the United Nations which is dedicated to developing a balanced and accessible international IP system, which rewards creativity, stimulates innovation and contributes to economic development while safeguarding the public interest. (www.wipo.int)

III. What is IP Audit?

Every entity's business strategy is to achieve 'X+Y' position from its current 'X' situation and thereby gain increased market share; earn high profitability; and high perceived value

value in the eyes of various stakeholders. In order to achieve this objective, it is important to determine the IP owned by an enterprise and the best way to utilize the IP. This can be achieved by the process of an IP Audit.



Businesses who conduct IP audits for the first time are often surprised by not only to realize how many IP assets it owns, but also how important these are to their business. *For example*, a patent audit for an innovation driven company helps them (i) identify the core and non-core technologies and for which technologies a patent should be sought and which can be allowed to become part of the public domain; (ii) which technologies can be leveraged by way of licensing, M&A's, joint ventures, strategic partnerships, etc. to earn revenues for the enterprise.

From businesses' point of view, an IP audit helps in:

- carrying out a systematic assessment of various processes and procedures adopted in creating or generating IP (including IP assets owned, used and/or acquired by a business), protection, maintenance and management of IP;
- taking an inventory of the IP assets – i.e. understanding the IP assets and IP rights associated thereto;
- identifying the ownership issues;
- identifying the current exploitation and potential for further commercialization, thereby uncovering under-utilized and/or un-utilized IP assets;
- identifying any threats, potential or otherwise, to a business;
- identifying the value of IP;
- enabling business planners to devise informed strategies that will maintain and improve the company's market position and balance sheet.

2. The IP Audit

I. When to conduct an IP Audit

An IP audit may be undertaken by an enterprise in a number of instances such as:

- when an enterprise is acquiring an IP centric company;
- when an enterprise is making a sale of its IP;
- for the purposes of IP asset valuation;
- to identify procedures followed by the enterprise with respect to its IP and to frame systematic guidelines for its better protection and management;
- to check whether any third party rights, including IP rights, are being violated;
- to check whether any third party is violating IP rights of the enterprise;
- to keep itself updated with changes in the legal environment;
- as part of an ongoing IP management program;
- for enforcing or defending IP rights.

II. Types of IP Audit

Depending on the purpose of the audit, the scope and extent of audit would diverge.

An IP audit may be a:

- **General purpose audit** - which is done as a part of the routine process of an enterprise; e.g. an audit may be conducted by an enterprise on its own to ascertain the validity of its IP and to check the effectiveness of its IP management system. Another example can be where there is a change in the law (like the recent amendments to the copyright laws or in the data protection laws in India) occur, the enterprise conducts an IP audit to ensure that its documents and processes are up-to-date and in compliance with applicable laws; or
- **Special purpose audit** - which is done to identify particular issues, e.g. a production house interested in acquiring the rights in a book for the purpose of adapting the book in the form of a cinematographic film may conduct a limited diligence to ascertain the validity of the title of the one granting the rights. Likewise, a company interested in acquiring a patented invention may conduct a diligence on the owner of the patent to ensure that they have the rights to the patent and can validly assign the same.

Further, depending on the circumstances, an IP audit can be either:

- **An internal audit** - which is conducted by the internal resources; or
- **An external audit** - which is conducted by third party resources in association with internal resources.

3. IP Audit Plan and Checklist

For conducting a successful IP audit, it is important to determine in advance the objective of the audit. The appropriate scope of the audit is often situation specific. Further, depending on its purpose, an IP audit may be narrow or extensive in scope.

The relevant considerations in setting the scope of an IP audit include:

- Size of the company;
- Duration and the extent and magnitude of company's business operations;
- Jurisdictions in which the company operates;
- The purpose of the audit;
- The strategic or other significance of IP in the company's corporate plan.

Once the scope of audit is finalized, creating a check list of action items and setting the corresponding time lines helps in the smooth conduct of the audit process. Thus, following

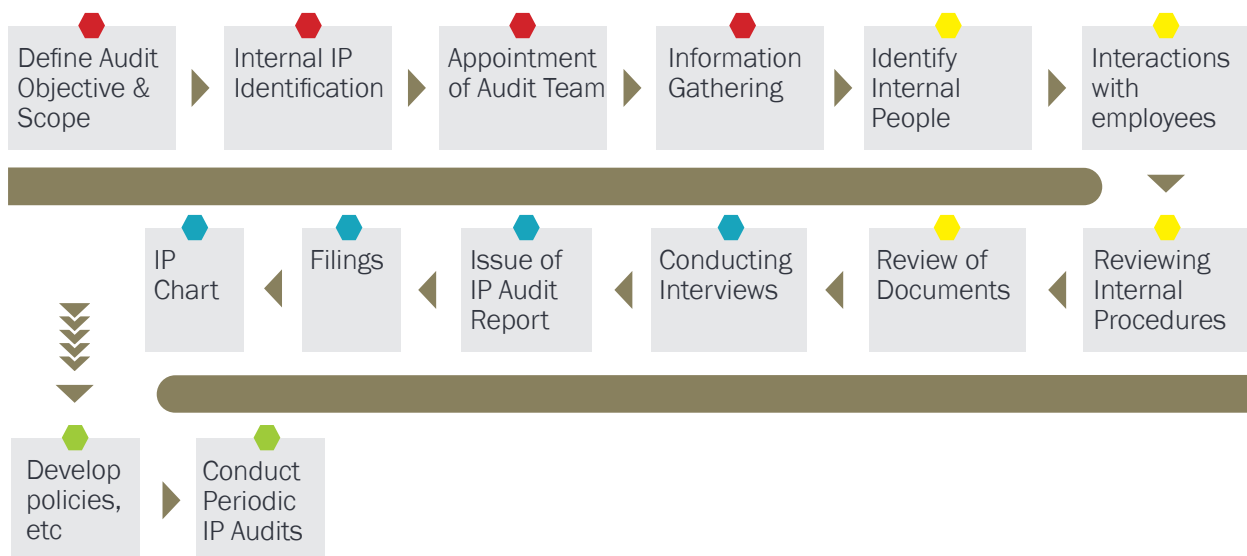
may act as a guideline to achieve this purpose:

- creating written audit plan specifying the areas of inquiry of the audit;
- identifying the key contact persons and assigning areas of responsibility;
- creating a list of documentation required for the purpose of audit;
- setting milestones and deadlines.

Some information such as the documents required, personnel to be interviewed, may not be known at the time of commencement of the audit, and the same may be provided to the audit team as the audit progresses.

Further, for each category of IP, the questions set out in Annexure 1 are designed to result in the production of the relevant documents required for review in an IP audit.

For a business enterprise, the steps generally to be followed in order to undertake the IP audit processes are as under:



I. Audit Objective & Scope

The objective and scope of an IP audit depends on the type of audit that is required to be conducted by an enterprise.

For example, a detailed IP audit will need to be conducted on an enterprise which possess IP assets at a global level and is interested in selling off its business or in seeking a collaboration of its business with another entity. In such a case, the audit will involve, *inter alia*, a review of the IP owned by the enterprise at a global level, the processes and policies followed by the enterprise to protect and manage its IP globally and the valuation of the IP. The scope of an IP audit will, however, be different in a case where the enterprise is selling only a particular type of asset, for example, particular software to another enterprise. In this case, the audit will be of a limited nature, mainly to examine whether the seller company owns all the software and has the right to sell the same, the nature of protection accorded to the software and the valuation of the software.

Once the scope of audit is finalized, creating a check list of action items and setting the corresponding time lines helps in the smooth conduct of the audit process.

II. Internal Identification of IP

Before appointing the audit team, the concerned company's business team must first internally identify IP that is the subject matter of the IP Audit. The audit team should identify the IP into IP created, owned and/or acquired by the enterprise as this will help in determining and verifying the ownership of the IP and the extent to which is it be put to commercial use.

III. Identification & Appointment of the Audit Team

The composition of an audit team would depend on the nature and scope of the audit. The team may consist of legal as well as technical members, especially when techno-legal issues are involved. The team conducting the audit should have sufficient time, knowledge and understanding of the facts and issues involved to perform the audit. Further, it is recommended to include managerial persons also in the team as they understand the business best and can work together with the legal team as well as technical members to explore new streams of revenue generation from utilization of the IP.

Where the internal resources of an enterprise may not have the required time, skills or expertise to perform a full-scale audit, external resources, such as external counsel may be brought in to conduct the audit. Such external counsels should not only have experience in conducting and managing IP rights but they must also have experience in resolving any defects found in the audit and litigation skills.

Lastly, the audit team should be sensitive and must respect the confidentiality of the information provided to it. In the Indian context, any communication with the attorneys would be considered privileged communication and hence protected from disclosure. However, the same privilege would not be available to the other members of audit team e.g. technical members. Hence, it is advisable to sign non-disclosure agreements with such members.

IV. Information Gathering

Once the audit team has been appointed, substantial information will need to be

gathered and presented before the audit team can efficiently commence their detailed audit investigation. Such information may include the following:

- nature of IP assets;
- relevant material pertaining to the IP assets;
- various contracts and agreements such as license agreements, vendor and customer contracts, R&D agreements, government contracts, etc. entered into in relation to the IP;
- all global intellectual property filings and registrations;
- litigation history of the IP in respect of which the audit is being conducted.

V. Interactions with Company Employees

The IP audit process usually starts with interactions with the employees and senior executives / management of the enterprise including various stakeholders of the IP development and management team. The interaction and the responses to the questionnaires developed for this purpose play a significant role in guiding the IP audit team to obtain a clear understanding of (i) the scope and extent of the business of the enterprise; (ii) the nature of the products and services offered; (iii) connection of the products and services with IP; (iv) internal procedures followed with respect to generation/creation, protection and management of IP; and (v) reasons and rationale behind certain decisions and actions of the enterprise in connection with the IP. Such interactions bring out important facts, which play a crucial role in identifying potential of IP and the IP related risks within the enterprise.

VI. Review of Internal Procedures

For the purpose of identifying, documenting, evidencing, registering, protecting and defending IP, it is very important to develop elaborate and strong internal policies and procedures. Lack of these may result in irreparable damage at a later stage. Mismanagement of IP at the point when it is created, often leads to time-consuming and unnecessary efforts to prove the ownership of IP and date of creation. The IP owners may also face infringement proceedings, if diligence is not exercised to avoid incorporation of third party IP. It is, therefore, very crucial to review such policies and procedures as a part of the IP Audit process. This process may eventually help in establishing an IP strategy for the enterprise.

Some main points with respect to reviewing internal procedures are as follows:

A. Procedure for Protection of Confidential Information

An enterprise generating IP has a substantial amount of information in the nature of confidential information and trade secrets. Any inadvertent disclosure of IP could jeopardize the IP owner's claim to originality and other related rights. Hence, examining the internal processes including documentation executed with employees, consultants and third parties, to safeguard such information assumes great significance while conducting the audit. The audit team must also analyze the methods and procedures adopted by the enterprise in educating employees regarding the protection of confidential information. For example, a patent is a right which is granted for an invention which is new or novel and which is not part of the public domain. Thus, any failure on the part of the employees of the enterprise to maintain confidentiality of the novel invention may result in depriving

the enterprise of its right to a patent for that invention, thereby resulting in business and opportunity losses.

B. Procedure for Exit Interview, If Any

It is also desirable for an enterprise to conduct exit interviews with their outgoing employees during which the employees should be reminded of their obligation(s) with respect to the confidentiality of the IP of the enterprise and that they will not try and enforce any rights in the IP created by them for the enterprise. Employees should be asked to sign a document reaffirming the confidentiality. Exit interviews can serve as valuable evidence in the event any former employee departs from his/her obligations with respect to honoring their obligations.

C. Procedure for Maintenance of Security

The security procedures and technology of an enterprise have an important role to play in as far as protection of IP is concerned. Policies should be framed so that employees should have access only to information relevant to them and not to all the know-how of the enterprise, as this helps in maintaining confidentiality of information.

D. Procedure for Finalization of Agreements

An enterprise may enter into various types of agreements for the purpose of commercially exploiting its IP, such as joint ventures, licensing arrangements, franchise arrangements etc. It is most important that such agreements are examined by legal counsels / heads of legal departments (along with the technical head, if necessary) before they are finalized, to ensure that the rights of

the enterprise are adequately protected. The IP audit team can review such agreement to examine if there is a need for any amendments in the IP agreements already executed by the enterprises. Further, based on the review, the audit team can also advise on things to keep in mind while drafting/ negotiating agreements in future.

VII. Review of Documents

A. Review of Agreements

The audit team has to review various contracts and agreements to which the enterprise is, or has been, party to. This will assist in establishing whether any IP has been created under any agreement, and if yes, who owns the rights to the IP, how is the IP exploited, etc. Documents to be reviewed typically include contracts / agreements with consultants, contractors, freelancers, employees, joint development agreements, research & development agreements, IP licensing and IP assignment agreements, transfer of technology agreements, distribution agreements, marketing or co-marketing agreements, franchise agreements and other business arrangements.

The aforesaid review and analysis of documents helps to ensure that the agreements contain clauses assigning the IP developed by the employees / contractors to the enterprise and that there are adequate obligations relating to confidentiality and non-compete placed on the employees / contractors in the agreements. When IP is purchased or licensed from third parties, the review of such agreements help in determining whether the assignment of IP is valid and adequate in favor of the enterprise, and in case of licensing, the nature of license granted and the activities the enterprise can undertake in connection with the licensed IP.

B. Reviewing Litigation Documents

Review of litigation documents helps in ascertaining and examining IP disputes pending with courts in India or abroad. IP litigation and claims often involve important aspects of the business and the outcome of such disputes can have a significant impact on the viability of an enterprise. For example, in a trade mark litigation suit, the owner of the trademark is likely to obtain an injunction against the infringer and restrict the infringer from using the infringing mark any more. Thus, the infringer would need to stop doing business / selling products or services under the infringing marks.

Description of all claims and pending or threatened litigation, arbitration, administrative and regulatory proceedings by or affecting the enterprise, its current or former directors, officers or employees, all correspondence relating to IP disputes, cease and desist notices, letters alleging infringement, letters threatening lawsuits, complaints for IP infringement, criminal complaints for copyright infringement, details of opposition proceedings initiated with regards to registration of IP are also examined carefully.

An IP audit helps an enterprise decide whether to continue with pending litigation or not. In cases where the enterprise has little chance of success, the litigation can be aborted or settled, to save future time and expense.

C. Review of Documents Recording Registration of IP

These documents are examined to ascertain the correctness of the information recorded on various IP registers. For example, in the case of a trade mark the correctness of the name of the owner, correctness of description of goods and services and classes would be examined and in the case of copyright correctness of the name of the author and the holder of various rights in the copyrighted work would be examined.

This is most important for group companies. It is often found in group companies that no conscious decision is taken regarding the ownership of IP while registering it. This leads to conflicting or concurrent rights being recorded, creating legal complexities and also problems at the time of hiving off of one of the group companies or in cases of mergers and acquisitions.

For example, if each member of a group company registers the same trade mark in its name, then that leads to ownership of this trade mark by various entities. Multiple ownership for a single trade mark is an antithesis of the concept of trade mark. Ideally, the parent company owning the trade marks should own the trade mark and license the trade mark to its group companies and affiliates who in turn can give some amount back to the parent company in the form of royalty payment. It does not really matter whether the parent company is located in one jurisdiction and the other group companies and affiliates are located in one or various other jurisdictions. However, globally, as trade mark is a territorial right, the parent company must be prudent enough to register its trade marks at least in all those jurisdictions where it has a presence.

Once the documents' examination has been done, the audit team must ideally conduct a formal database search to validate their finding as well as to understand the actual factual position. An IP database search can be conducted with various registries such as the Trade Marks Registry, the Designs Office, the Patents Office, etc.

VIII. Issuance of an IP Audit Report

Just like a due diligence report is issued post due diligence exercise, in case of an IP audit, an IP Audit Report is issued once the audit is completed. The report states the objective of the audit, the audit plan and how it was

executed and the results of the analysis. The report identifies each IP asset owned by the enterprise and specifies the date of acquisition of each IP asset, its developer, any license, assignment, or transfer, and whether it has been registered. It describes and evaluates defects uncovered in the audit, proposes and describes specific remedial action that needs to be taken or that has been taken and responds to any other specific need for information the parties commissioning the audit may have. For example, there may be certain changes to be undertaken in the way IP is identified or protected internally.

If the audit was conducted in the context of an acquisition transaction, the report provides the information on the IP to be acquired and also highlights issues, if any, in connection with the acquisition of the IP. The report would also suggest remedial actions to correct the concerns, if any. Necessary remedial actions can be implemented either before the transaction is consummated or after the acquisition (with appropriate adjustments in the purchase price to reflect the risks or cost of the cure) by way of condition precedent⁴ or condition subsequent.⁵

The audit report is highly confidential and is generally given only to the enterprise requisitioning the conduct of the audit. Privileged attorney-client communications is generally embodied or summarized in the report and care is also taken in its distribution to assure that the privilege is not inadvertently waived.

IX. Action Items Post IP Audit

A. Filings

If the Audit Report suggests that filings are to be undertaken then the filings must be

immediately taken care of so as to avoid any issues at a later date, e.g. the audit report may suggest the filing of copyright and trade mark registration applications or affidavits for better protection. Sometimes errors in copyright and trade mark applications or registrations may need to be corrected.

B. Develop Policies, Guidelines and Procedures

If the enterprise does not have any existing policies, guidelines and procedures with respect to identification, development, protection and management of IP, then such policies may be developed in accordance with the recommendations of the IP audit report.

C. IP and Tax

An IP audit may be combined with the assessment of effectiveness of the structuring of the IP within the group companies and with third parties from the tax perspective. For instance, an enterprise with operations at a global level should house its IP in tax efficient jurisdictions so as to ensure maximum profitability. Further, in case of related party transactions, transfer pricings issues should be looked into by the parties to avoid tax liabilities and related risks. Thus, an entity licensing its IP to a related entity should ensure that the license fee/royalty is calculated at arm's length basis.

D. Conduct Periodic IP Audits

An enterprise must revisit the audit report and ensure that the enterprise and all its employees are adhering to the recommendations outlined in the audit report as well as complying with the policies, guidelines and procedures of the enterprise. Further, conducting periodic

4. Condition Precedent is a contractual obligation that requires one party to the contract to fulfill its obligation/s before another party to the contract is required to fulfill its contractual obligation.

5. Condition Subsequent is a contractual obligation that requires one party to the contract to fulfill its obligation before another party to the contract is required to fulfill its contractual obligation.

IP audits is recommended as that helps the enterprise to keep its IP portfolio up-to-date.

4. Typical Issues Identified in IP Audits

I. Ownership Issues

Ownership of IP issues may be unraveled in the IP audit, such as, the enterprise may not have proper assignments of the IP created by the employees / consultants, the license given to the enterprise is used in violation of the terms of the license arrangement, the IP is registered in the name of another group entity and the entity using the IP does not have a license to use the IP. The enterprise may need to cure defects in title to various IP that are discovered in the audit. For example, a designer may have designed and developed a certain design / product to be used by the enterprise which may form part of its product portfolio. The enterprise must get the design / product and all rights therein assigned in its name.

Further, the audit may reveal deficiencies in license rights from third parties to make derivative works that incorporate elements of works owned by such third parties. For instance, in case of an audit conducted on a company owning patents, the IP audit team would look into products that the company developed through joint ventures with other companies or research institutions to ensure that everyone who contributed to any subject matter covered by the claims of patents covering such products is listed as an inventor. Further, the audit team would also review potential contributions by past and current employees in connection with the patent so that proper assignment of rights is taken in favor of the enterprise. This is because, unlike copyrights, where the employer becomes the first owner of the work created by the employee in the course of his employment, an employer does not own the inventions of its employees in the absence of a contrary agreement. Thus, either an actual assignment or an implied assignment must be found to support the ownership of such inventions by

the enterprise.

The audit may also reveal third parties claims to joint ownership with the enterprise for a patent and who, by virtue of such joint ownership, will be free to exploit the patent themselves without the permission of the enterprise. The enterprise may need to buy out a joint owner's rights in this case to claim complete ownership.

If the joint ownership concerns a copyright, the law will imply a duty of accounting of profits to the other joint owner from the exploitation of the joint work by the enterprise. If the enterprise does not wish to buy out the rights of the joint owner, a written agreement may be needed in which the joint owners agree that neither shall have a duty of accounting of profits to the other as a result of exploitation of the copyrighted work.

II. Source Code Related Issues

Another example, specifically relevant to the IT industry, is with the use of open source software. As the name suggests, open source software is a software which is available in public domain and free for use by one and all. In case an enterprises uses any open source software, it is important to read and examine the terms of use of the open source software carefully, to determine the extent to which the open source software can be used by the enterprise and if the terms of license of the software permit the enterprise to modify the software, if required. Sometimes, the terms of license of open source software may also specify that the modified product would become part of the public domain. IP audit helps in identifying such issues and bringing the same to the notice of the enterprise.

III. Issues in Relation to IP and Freelance Contractors

Sometimes an enterprise may outsource part or all of its work or any other project to a third party or a freelancer. This may be mainly due to lack of infrastructure, skills, bandwidth, etc. In such cases, the enterprise should take steps to ensure that if any IP rights are used by such third party, such IP rights belong to the enterprise or the rightful holder and in no way can the third party / freelancer have any claim to the IP. On the other hand, if any work has been created by any third party or freelancer, the enterprise must ensure that all IP and IPR attached to it belong to the enterprise.

For instance, the producers of a film engage third parties/freelancers, such as writers, directors, artists, musicians for the purpose of their film. In such cases, it is advisable that a written agreement exist between the producers and the third parties / freelancers clearly stating that the ownership of IP created by the third parties/freelancers vest with the producer. The agreement should also specify the extent, if any, to which the IP can be used by the parties / freelancers.

IV. Issues in the Media Industry

While carrying out audits of the media companies, it is often found that a producer may have granted same rights to different parties, thereby creating a litigation risk. Often future rights are granted without realizing the breadth of rights. Further, at times, the assignment clauses are not carefully drafted and this may result in the grant of limited rights than the ones contemplated by the parties. Also, as far as new media is concerned, the definition of rights is often confusingly drafted, which when it comes to enforcement may create issues due to vagueness of the

nature of rights.

V. Issues in the Pharma Industry

In the pharmaceutical industry, especially in the Indian context, before launching any product, it is very important to carry out an audit of related trademarks and patents. E.g. even if the trademark is registered, it is advisable to do a market survey to find out whether similar sounding mark is already in use. Further, the analysis of strength of patent and freedom to operate analysis is equally important.

VI. Infringement Issues

If the audit reveals potential infringement of third party rights, then the enterprise may consider seeking appropriate licenses from the owner of the IP or removing or redeveloping its products so there are no potential liabilities. In transaction related audits, if it appears that consummation of a proposed acquisition will precipitate a lawsuit, it may be possible to obtain the necessary indemnification from the seller to ensure that no liabilities in this regard are acquired by the buyer.

VII. Human Resource Issues

If the future value of a product depends heavily on retaining certain key personnel, some potential problems can be avoided by developing contractual or other incentives for such personnel to stay on. If the principals or key employees will not remain with the enterprise after an acquisition, then consulting agreements, non-disclosure agreements or covenants not to compete (where enforceable) may lessen the severity of their departure.

5. Conclusion

Today, in this age of knowledge economy, significant economic value is locked into intangible assets of enterprises, specifically their intellectual property (IP). An important factor for a company's success is to fully recognize the IP owned by the company and understand and capitalize on its real value. However, often companies underestimate the value of their IP and fail to protect it. IP protection (through registrations, infringement actions etc.) is treated as a low-priority issue and the management of IP rights is regarded more as an activity that merely adds to the organization's costs, rather than contributing to the strategic corporate value. Such an uninformed approach could lead to numerous pitfalls, which could be detrimental to the organization's future, including missed opportunities, third party infringement and unavoidable and unforeseen costs and efforts in developing new business models, fighting expensive litigations, etc. At times, companies may end up expending more monies in securing rights in their own IP which may have been misappropriated by third parties due to failure on the company's part to protect their IP in the first place. Hence, it becomes pertinent to have an intimate knowledge of one's own IP and the need to protect the IP in a timely and effective manner.

An IP audit provides information on the nature and strength of IP as well as mechanisms to fully exploit these important intangible assets. An IP audit is a relatively simple exercise, but it has a meaningful role in avoiding various circumstances, such as violation of others' rights, protecting one's IP/IP rights, minimizing the risk of third party IP violation, clarifying IP ownership issues, etc. It also serves as a guiding tool for maintenance, management and safeguarding of IP rights throughout the life cycle of IP. As companies understand the value of their intangibles and rights associated thereto, the importance of IP is bound to grow, and thus the need for an IP audit.

Annexure 1

	Intellectual Property (IP)				
	Patents	Trademarks	Copyrights	Designs	Confidential Information
Nature / Type of IP					
Is the IP created In-house?					
Do contracts exist to assign the IP to the company? a) with employees b) with contractors					
Is the IP acquired / licensed by the company?					
If IP is acquired, is there a proper assignment agreement in place?					
If IP is licensed, is there a proper license agreement in place?					
Are the IP assignment / license agreements adequately stamped / franked?					
In case of a licensed IP, is the IP used as per the terms of the license?					
Are there any restrictions on the use of the IP?					
Is there any joint ownership of IP?					
If yes, what is the nature of rights the joint owners have in the IP?					
Is the IP registerable?					
If Yes, is it registered?					
What is the date of expiry of IP?					
If IP cannot be registered, is it protected by confidentiality agreements					
Is the IP in use?					
Where is the IP used?					
Is the IP being commercially exploited?					
Who / Which department is responsible for IP protection?					
Who / Which department is responsible for its management & enforcement?					

	Intellectual Property (IP)				
	Patents	Trademarks	Copyrights	Designs	Confidential Information
Is there a robust and effective IP protection, management and enforcement plan in place?					
What is the current approx. value of IP?					
Is the IP subject to any lien, encumbrances, third party rights?					
Does the IP violate/ infringe upon any third party rights?					
If IP violate/ infringe upon any third party rights, then is the matter at a litigation stage or can be resolved through mutual discussions					

About NDA

Nishith Desai Associates (NDA) is a research based international law firm with offices in Mumbai, Bangalore, Palo Alto (Silicon Valley), Singapore, New Delhi, Munich and New York. We provide strategic legal, regulatory, and tax advice coupled with industry expertise in an integrated manner.

As a firm of specialists, we work with select clients in select verticals on very complex and innovative transactions and disputes.

Our forte includes innovation and strategic advice in futuristic areas of law such as those relating to Bitcoins (block chain), Internet of Things (IOT), Aviation, Artificial Intelligence, Privatization of Outer Space, Drones, Robotics, Virtual Reality, Med-Tech, Ed-Tech and Medical Devices and Nanotechnology.

We specialize in Globalization, International Tax, Fund Formation, Corporate & M&A, Private Equity & Venture Capital, Intellectual Property, International Litigation and Dispute Resolution; Employment and HR, Intellectual Property, International Commercial Law and Private Client. Our industry expertise spans Automobile, Funds, Financial Services, IT and Telecom, Pharma and Healthcare, Media and Entertainment, Real Estate, Infrastructure and Education. Our key clientele comprise marquee Fortune 500 corporations.

Our ability to innovate is endorsed through the numerous accolades gained over the years and we are also commended by industry peers for our inventive excellence that inspires others.

NDA was ranked the 'Most Innovative Asia Pacific Law Firm in 2016' by the Financial Times - RSG Consulting Group in its prestigious FT Innovative Lawyers Asia-Pacific 2016 Awards. While this recognition marks NDA's ingress as an innovator among the globe's best law firms, NDA has previously won the award for the 'Most Innovative Indian Law Firm' for two consecutive years in 2014 and 2015.

As a research-centric firm, we strongly believe in constant knowledge expansion enabled through our dynamic Knowledge Management ('KM') and Continuing Education ('CE') programs. Our constant output through Webinars, Nishith.TV and 'Hotlines' also serves as effective platforms for cross pollination of ideas and latest trends.

Our trust-based, non-hierarchical, democratically managed organization that leverages research and knowledge to deliver premium services, high value, and a unique employer proposition has been developed into a global case study and published by John Wiley & Sons, USA in a feature titled 'Management by Trust in a Democratic Enterprise: A Law Firm Shapes Organizational Behavior to Create Competitive Advantage' in the September 2009 issue of Global Business and Organizational Excellence (GBOE).

A brief below chronicles our firm's global acclaim for its achievements and prowess through the years.

- IDEX Legal Awards: In 2015, NDA won the "M&A Deal of the year", "Best Dispute Management lawyer", "Best Use of Innovation and Technology in a law firm" and "Best Dispute Management Firm" (<http://idexlegalawards.in/ArticlePage.aspx?aid=6>). Nishith Desai was also recognized as the 'Managing Partner of the Year' in 2014.
- Merger Market: has recognized NDA as the fastest growing M&A law firm in India for the year 2015.

- Legal 500 has ranked us in tier 1 for Investment Funds, Tax and Technology-Media-Telecom (TMT) practices (2011, 2012, 2013, 2014, 2017)
- International Financial Law Review (a Euromoney publication) in its IFLR1000 has placed Nishith Desai Associates in Tier 1 for Private Equity (2014, 2017). For three consecutive years, IFLR recognized us as the Indian “Firm of the Year” (2010-2013) for our Technology - Media - Telecom (TMT) practice.
- Chambers and Partners has ranked us # 1 for Tax and Technology-Media-Telecom (2014, 2015, 2017); #1 in Employment Law (2015 & 2017); # 1 in Tax, TMT and Private Equity (2013, 2017); and # 1 for Tax, TMT and Real Estate – FDI (2011).
- India Business Law Journal (IBLJ) has awarded Nishith Desai Associates for Private Equity, Structured Finance & Securitization, TMT, and Taxation in 2015 & 2014; for Employment Law in 2015
- Legal Era recognized Nishith Desai Associates as the Best Tax Law Firm of the Year (2013).

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NDA Insights

TITLE	TYPE	DATE
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Research @ NDA

Research is the DNA of NDA. In early 1980s, our firm emerged from an extensive, and then pioneering, research by Nishith M. Desai on the taxation of cross-border transactions. The research book written by him provided the foundation for our international tax practice. Since then, we have relied upon research to be the cornerstone of our practice development. Today, research is fully ingrained in the firm's culture.

Research has offered us the way to create thought leadership in various areas of law and public policy. Through research, we discover new thinking, approaches, skills, reflections on jurisprudence, and ultimately deliver superior value to our clients.

Over the years, we have produced some outstanding research papers, reports and articles. Almost on a daily basis, we analyze and offer our perspective on latest legal developments through our "*Hotlines*". These *Hotlines* provide immediate awareness and quick reference, and have been eagerly received. We also provide expanded commentary on issues through detailed articles for publication in newspapers and periodicals for dissemination to wider audience. Our *NDA Insights* dissect and analyze a published, distinctive legal transaction using multiple lenses and offer various perspectives, including some even overlooked by the executors of the transaction. We regularly write extensive research papers and disseminate them through our website. Although we invest heavily in terms of associates' time and expenses in our research activities, we are happy to provide unlimited access to our research to our clients and the community for greater good.

Our research has also contributed to public policy discourse, helped state and central governments in drafting statutes, and provided regulators with a much needed comparative base for rule making. Our *ThinkTank* discourses on Taxation of eCommerce, Arbitration, and Direct Tax Code have been widely acknowledged.

As we continue to grow through our research-based approach, we are now in the second phase of establishing a four-acre, state-of-the-art research center, just a 45-minute ferry ride from Mumbai but in the middle of verdant hills of reclusive Alibaug-Raigadh district. The center will become the hub for research activities involving our own associates as well as legal and tax researchers from world over. It will also provide the platform to internationally renowned professionals to share their expertise and experience with our associates and select clients.

We would love to hear from you about any suggestions you may have on our research reports. Please feel free to contact us at research@nishithdesai.com

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