

# Not all audits are bad: Intellectual property audits can protect and create value in your retail business

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The COVID pandemic forced retailers into new realities. Most notably, it accelerated the transition to e-commerce, and created a myriad of practical (and legal) retail challenges, including health and safety issues, counterfeit products, remote workers and, in some cases, staff reductions, reduced demand and decreased profitability.

While these issues dominated most companies' focus for the last ten months, many are now beginning to shift focus, to ways to improve the bottom line. One — sometimes overlooked — means to do so is by maximizing the value and protection of existing intellectual property assets and identifying areas of intellectual property growth and development (and potential concern).

This article focuses on the basics of systematically auditing intellectual property holdings and strategies. Such audits can identify gaps in protection, avoid potential liabilities and result in new (and/or previously untapped) revenue sources.

## CONFIDENTIALITY/TRADE SECRET PROTECTIONS

While it happens all the time, particularly in 2020 due to COVID, more companies than usual have taken steps that test the limits of existing confidentiality and trade secret protections. Actions such as (i) letting go of staff who possess confidential and trade secret information, (ii) hiring new staff who bring confidential information from a prior employer, (iii) sharing confidential information with third-party service providers or (iv) accelerating the use, development or licensing of technology, each implicate confidentiality and trade secrets.

Now is a good time to make sure you are well protected. There has been a 27 percent increase in confidentiality and trade secret-related litigations in the past three years (compared to the prior three years), with very high-dollar judgments awarded for misappropriation, sometimes more than \$500M.

To protect confidential/trade secret information, a company needs to show that it has (i) designated certain information as confidential/trade secret, (ii) taken reasonable steps to maintain the confidentiality of that information and (iii) insured that employees (or third parties with whom you share information) know that they have an obligation to protect that confidential/trade secret information.

In conducting a confidentiality/trade secrets audit, some questions to ask your team include:

*Preventative measures:* Have you created a culture of respect for confidential information in which employees feel that the careful safeguarding of confidential information is as important as any other business consideration for the company, including your HR, sales, marketing, engineers, legal and cybersecurity teams? Do you send annual reminders of the importance of safeguarding confidential information? Do you monitor for unusual patterns or volumes of copying data?

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*Exiting/Incoming employees:* Does your exit interview of departing employees who possess sensitive confidential information include a supervisor who has knowledge of the types of confidential information possessed by the employee? For new hires coming from a competitor, what steps have you taken to ensure that the new employee will not be using confidential information of the former employer?

*Agreements:* Are your nondisclosure agreements, employment contracts, technical service agreements, licenses and joint venture documents generic or are they tailored to particular situations? Do all of your team members (not just your legal team) fully understand the terms? Do you revise the documents and update the affected individuals as circumstances change?

While many specific elements can go into a confidentiality/trade secret audit, the overarching reminder is that a company must be constantly vigilant in its protection of that information, or risk losing it (and recovery of damages for someone else's misappropriation).

## TRADEMARKS AND TRADE DRESS

Trademarks and trade dress — your own and your rights to use others' — are essential to all retailers. The value of marks and branding has been borne out by the unfortunate shuttering of

many retailers during the COVID pandemic. At liquidation, it has been the brand names, not inventory or other assets, that command the highest price.<sup>1</sup>

To maximize the strength and value of your trademark portfolio and avoid unnecessary, costly litigation, a thoughtful trademark audit can ensure that you are carrying out an effective trademark strategy.

The following issues, among others, should be considered in any such audit:

*Existing registrations:* Have you reevaluated in what classes and countries you register your marks to take into account changes in business? Do they cover the appropriate goods and services (and the ones you expect to sell/provide in the future)? Do you continue to pay for marks you no longer use or countries in which you do not have foreseeable business? Do your registrations reflect the current version/usage of the mark (e.g., has a logo been updated, or a brand name shortened)? Have Section 15 Declarations of Incontestability been filed for all eligible marks? What other marks exist in similar spaces with similar commercial impressions, and how much room for expansion of the brand is there?

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## Intellectual property can be an underappreciated value proposition.

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*Possible new registrations:* Is there anything consumers associate with your company that you have not registered (including nontraditional associations, such as color, packaging shape, fonts, shelving displays or even a smell (see TMEP § 1202.13))? Have you considered the use of design patents, which are inexpensive and relatively easy to obtain, to protect look and feel aspects of your brand until secondary meaning is established and a trademark registration can be secured? Do you have new products, brands or packaging for which you have not obtained protection?

*Clearance and enforcement:* Do you have a systematic, regular procedure in place to police potential infringements of your trademarks? Before investing in new marks, do you conduct a rigorous, thorough clearance search and address any arguable blocking marks before you invest in developing your new trademark?

*Licensing:* For inbound licensing, are your business teams in full compliance with the terms of your contracts? For outbound licensing, do you have a systematic way to ensure that your licensees are not abusing your trademarks and going beyond the scope of their license? Are your licensees (or others) attempting to register your marks or similar marks in other countries (including those where you do not have registrations)? Are you including and enforcing quality control terms in your licenses? If you agree to celebrity and/

or brand collaborations, do they include a license beyond the scope of the collaboration? Who owns what rights?

### PATENTS

Retailers are often the target of patent infringement suits. A thoughtful intellectual property audit and subsequent patent strategy can help retailers protect themselves from patent litigation — and explore developing (or monetizing) their own portfolio.

At least these basic concepts should be included:

*Existing and prospective patents:* What technology does your company use that you believe is novel? (Keep in mind that technology can include novel business methods.) Is any of it already patented? If so, is it being properly maintained? If you have existing patents, have you reassessed ways to broaden their scope, especially to uses outside of your business or that cover your competitors' products? Are you marking your products either physically or "virtually" with the relevant patent numbers (but not expired patents)?

*Employment agreements:* Does your standard employment agreement include a strong intellectual property assignment provision (e.g., does it include the language "do hereby assign," as opposed to "will" assign), and what is the scope of assigned inventions (e.g., those made in the course of employment, those made utilizing company resources or something else)? Are all employees required to sign the agreement?

*Patent litigation defense:* Do you have strong indemnification provisions against infringement claims in all your supplier contracts (e.g., will it protect you if only the main elements of the infringement claim are provided by the supplier)? Do you investigate the financial strength of the supplier to determine if it can stand behind its indemnification or require insurance coverage? Have you looked into whether any infringement threats have been made against the product the supplier is providing you?

*Patent litigation offense:* Do you have a systematic way of monitoring the industry for use of your technology (e.g., are your engineers and salespeople aware of your patents and do they know to report any possible infringements)? If you have inbound or outbound patent licenses, who has the right, obligation and/or standing to enforce the patents? Who is responsible for monitoring for infringement? For those same licenses, how are you monitoring compliance with the terms internally and externally?

### SOFTWARE AUDITS

With an increased move to online services and the accelerated trend to web-based products, third-party software licenses are on the rise. An effective audit of your software licenses and use of licensed software can save hundreds of thousands of dollars. We covered this issue in our 2019 Annual Review.<sup>2</sup>

## CONCLUSION

Intellectual property can be an underappreciated value proposition. But the drive towards shopping online has emphasized the critical importance and tremendous value of brand identity and other intellectual property to a business. And studies show that intellectual property and intangible assets represent roughly 80 percent of the value of an S&P 500 company.<sup>3</sup>

At the start of any new year, (and especially this year with the upheaval caused by the pandemic, including changes to numbers and types of employees, new areas of business and expanded use of software and technology), companies will benefit from a careful review of their intellectual property assets and protections.

What assets are strong already? What protections can be strengthened? Where are the areas of concern and potential liabilities? Asking these questions, taking a proactive approach, can avoid (or at least mitigate) legal and business problems and unnecessary losses, while improving profitability and securing your company's competitive advantages.

Whether you undertake an audit in-house or with assistance from outside counsel, the key is to take an unbiased, fresh look at your intellectual property assets, procedures and related legal documents to increase value, discourage violations, protect against challenges and prevail in litigation if necessary.

### Notes

<sup>1</sup> <https://bit.ly/3pv3ZnY>

<sup>2</sup> <https://bit.ly/2ZpE5r4>

<sup>3</sup> Aon PLC, *2019 Intangible Assets Financial Statement Impact Comparison Report* (2019).

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