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The Importance of Trademark Audits

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One of the most important—an often overlooked—services that should be performed by trademark professionals is a trademark audit. Trademark professionals dedicate a lot of time to clearing, filing and enforcing marks. However, trademarks are not static. It is imperative that trademark professionals from time to time step back and review a company's trademark assets to ensure that those assets are sufficiently identified, protected and exploited.

A trademark audit allows a company to review, manage and fully exploit the value of existing and potential trademarks, and can range from a yearly review managed internally to a comprehensive audit conducted by outside counsel. Trademark audits are also often conducted as part of a comprehensive due diligence program by an acquiring company, the results of which can often make or break a deal.

The benefits of a trademark audit include identifying new brands and ensuring maximum exploitation of existing brands. At a minimum, a trademark audit should include a survey of what marks the company currently uses, whether proper trademark use and notice is being made, what applications and registrations exist, and a review of the chain of title.

Through this analysis, a trademark audit will identify assets that have not been adequately protected and thus may be impossible or difficult to enforce or exploit. While companies are usually aware of their core brands, a review of product lines, brochures, websites and other marketing materials will often reveal trademarks that have not been identified, including—in many cases—nontraditional marks. In addition, a company may have expanded use of its marks into product lines or geographic markets that were not contemplated at the time of filing applications; in some cases, the initial filing may simply not have been broad enough.

Of course, it is not just good enough to own registrations for a particular mark, but the registrations should be broad enough to cover not only the goods/services currently provided under the mark, but ideally the goods/services with which the mark may be used in the future in the geographic regions of interest. Regions where the marks are used or will be used, where infringement may be likely, where manufacturing may occur or where a company wants to have blocking registrations in place should be considered. In addition, for companies that own EU applications or registrations, particular attention should be given to whether protection has been sought in Norway, Switzerland and other countries in Europe that are not EU members.

A cost-benefit analysis (taking into account the longevity of a product line/new geographic market) should follow to evaluate whether new applications should be filed to cover the expanded breadth of the goods/services/countries where a mark is used or contemplated to be used. This ensures that a company is obtaining proper protection to exploit and enforce its mark in connection with all of the goods/services and geographic regions of interest. In many cases, the Madrid System represents a cost-

effective filing strategy to fill the geographic gaps in protection.

In addition, one of the best reasons to perform a trademark audit is that it may identify opportunities to increase revenue through exploitation of existing or newly identified brands. A primary path to increased revenue (other than direct sales under a mark) comes from licensing arrangements. As with acquiring companies, of primary concern to a licensee will be the value of the brand, including whether or not it has been adequately protected. Regular trademark audits demonstrate a commitment to the value of those assets and will usually result in a positive review by a potential licensee.

Furthermore, all current license agreements should be reviewed. For outgoing license agreements, the audit should confirm whether or not appropriate provisions are in place and acted on to ensure the integrity of the mark being licensed (e.g., quality control provisions depending on the country) and that, as appropriate, such license agreements are recorded in the countries covered by the license agreements. In addition, as to all license agreements, the obligations and limitations of both the licensor and the licensee should be reviewed for compliance.

A trademark audit can also identify critical ownership issues. In some countries, including the United States, if an application is filed in the name of a party that did not own the rights to the mark when the application was filed, any resulting registration may be void, in which case a new filing should be considered. Further, a mark may have been assigned to another entity, or a name change or merger may have occurred since filing. Ensuring that the chain of title is sound is imperative, and every attempt should be made to promptly correct potential problems in the chain of title revealed by the audit. In some jurisdictions, a lawsuit or an opposition based on a registration in which the filer lacks proper ownership or a clean chain of title could result in an inability to enforce the trademark. In addition, in certain jurisdictions, failure to promptly record changes to the chain of title may affect or limit the ability to obtain damages in an infringement action. Similarly, a review of liens and security interests tied to trademark assets should be reviewed to determine if such encumbrances should be removed.

Further, as the audit is conducted, attention should be paid to whether proper trademark use and trademark notice is being practiced by the company. If not, guidelines can be prepared by a trademark professional for the marketing and business personnel to follow. Proper trademark use and notice can deter third parties from adopting a mark similar to your client's or company's mark and, in some cases, can ensure that a mark does not become generic.

A company must also have a program in place to effectively monitor potential infringements and enforce its trademarks. Failure to police and enforce trademark rights can weaken or even completely destroy the value of a brand. Thus, an audit of policing activities and monitoring programs should be conducted. For example, watching services for marks in which the company has lost interest should be cancelled, whereas they should be added for marks that are important to the company and not currently being watched.

The scope of the watching services (in terms of classes and types of watching service) should also be carefully reviewed to ensure that all third-party marks of interest will be revealed.

Many companies should also conduct periodic Internet searching to reveal misuses and other infringing activity.

An additional area that is often overlooked is appropriate customs recordation for registered marks. This can be an important tool in stopping the import (and in some countries the export) of counterfeit or infringing goods.

Settlement agreements should also be reviewed to assess the contractual obligations of other parties to the agreements and to ensure that they are complying with the terms of such agreements (including limitations as to registration or use). Allowing non-compliance with settlement terms can result in a waiver of rights. Such agreements might also include ongoing obligations or use restrictions on the company. An audit of those provisions can potentially avoid a future dispute.

Domain name acquisition can also play a vital role in the protection of a company's trademarks. Thus, an audit of a company's domain name portfolio should be conducted in conjunction with the trademark audit. Domain name acquisition is becoming an inexpensive means to keep others from adopting marks or trade names that are identical to that of your client or company.

Domain name registrations for marks that are no longer of interest to the company should be reviewed. Depending on the circumstances, for example, if substantial goodwill was acquired in the mark or if customer support is still provided for products sold under the mark, the company may want to retain such domain names and have them automatically redirected to the company's home page. In other cases, for example, if the goods or services were ultimately never provided under the mark, a company may be able to sell or auction such domain name registrations and generate revenue.

When trademark audits are not regularly performed, certain events—such as a desire to enforce, sell or continue to use certain marks—typically highlight deficiencies in a trademark program. In many cases, it is too late to cure the deficiencies. Consequently, valuable trademark rights can be lost or weakened or a company may not be able to fully exploit or enforce its trademarks for certain goods/services/countries of interest. Regular trademark audits will help optimize the business benefits that a company derives from its valuable trademark rights and ensure that the integrity of a company's trademarks is maintained.

Although every effort has been made to verify the accuracy of items carried in the INTA Bulletin, readers are urged to check independently on matters of specific concern or interest.

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