

Due Diligence & Intellectual Property

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Due Diligence & Intellectual Property

1. When Will IP Due Diligence Investigation Occur?

- buying all or part of a business
- investing in a business
- taking security in business assets
- entering into a joint venture
- buying IP assets specifically

2. Determining the Scope of IP Due Diligence

- timing factors
- value of the transaction
- nature of the business, eg. biotech, technology, entertainment, publishing
- importance of the IP assets in the transaction
- nature of IP assets
- geographic scope of business

3. Identifying the IP

a) Trade Marks, Trade Names, Domain Names

Trade Marks

- names, slogans, trade dress and packaging, colours
- registered, unregistered
- if registered – where?
- pending applications?
- cancellation proceedings, oppositions, other court proceedings?
- have trade marks been licensed, or are they used under license?
- any threats of infringement, any known infringers?

Trade Names

- registered, unregistered
- note – generally can't "assign" trade name registrations

Domain Names

- where registered?
- related domain names
- note – technical requirements for recordal of assignments differ widely

- timing of recordal can be very unpredictable

b) Copyright

- breadth of copyright rights – literary, dramatic, artistic, choreographic, audio visual and architectural
- rights often not geographically restricted
- registered and unregistered. If registered – where?
- note special ownership considerations (author is copyright owner, except if author is employee doing work in ordinary course of employment)
- different formats of any work can have different copyright owners
- copyright can only be transferred or licensed by written document
- term (life of author + 50 years), can vary in other jurisdictions
- moral rights
- neighbouring rights
- special considerations for software
 - owned or licensed?
 - if licensed, right to assign license?
 - right to modify? access to source code?
 - if company created – by whom?
 - have employees any independent right in software?

c) Patents

- grant of exclusive rights relating to an invention for a specific term (a "registered" right)
- only certain types of inventions can be patented
- time limitations
- is technology used pursuant to a license, or have any licenses been granted?
- search limitations (applications may not be available for searching)
- any actions affecting validity of the patent, or rights of patent owner?
- ownership issues

d) Industrial Designs

- rights to shape, non-functional features or ornamentation ("a registered right")
- time limitations

e) Trade Secrets, Know How or Confidential Information

- can include information of key importance to business success
- eg. techniques, secret formulas, customer lists, manufacturing details, supplier information
- difficulty of "searching"
- access to such information may be dependent on involvement of key personnel
- information is only proprietary if it has been kept confidential – need details of company record-keeping systems, employee confidentiality provisions

f) Other IP Rights

- Semiconductor chip rights
- Plant breeders rights
- Personality rights

4. Special Issues

a) Who Owns the IP?

- company – or parent company
- key employees – may either own IP assets, or have critical information on company operation, use of IP assets
- unrelated third parties – especially re: software
- specific issues re: copyright, patents – ownership with "originator"
- may be specific terms in employment agreements that affect ownership, access to information

b) Special Nature of Some IP Assets

- not necessarily "national" in scope
- often not easily searchable
- ownership issues require careful assessment of whether value is in the company, as opposed to individuals, or whether company has full control over its IP assets
- sale of part of a business can cause difficult issues for trade marks, trade names or domain names that will be associated with both the seller and buyer

c) Security in IP

- not clear that IP can be registered under provisions of PPSA or similar statutes

- security can be recorded under patent, copyright statutes
- can record security interest on title of trade mark – (vs. "mortgage" of trade mark, or conditional sale)
- if acting for purchaser, check whether security has already been granted

d) Valuation of the IP Assets

- does the IP drive the transaction? If so, ensure IP independently valued
- for patents – consider "state of art" searches to assess state of current technology
- an infringement search can assess whether invention will infringe other rights
- how much of value is dependent upon skill, ability of key personnel?

e) Searching Strategies

- only certain rights can be searched in public records
 - eg. registered trade marks, pending applications
 - registered trade names
 - domain names
 - registered copyrights
 - issued patents, some patent applications
 - issued designs
 - registered semiconductor chips
 - registered plant varieties
- many rights are valid and enforceable without registration, especially trade marks, trade names, copyright, trade secrets, confidential information and know how
- registrations frequently national in scope – consider necessity of international searching
- note limitations on search results arising from failure to keep ownership details current on public records

f) Documentation of the Transaction

- documents will often become part of public record – will IP-specific assignments be recorded?
- some jurisdictions require notarization, legalization
- timing of records
- frequently assignor may be called upon to sign documentation after closing
- cost factors