

INTELLECTUAL PROPERTY DUE DILIGENCE

The Due Diligence process is used during mergers, acquisitions, licensing and financial transactions. The information helps you determine the risks or merits of a particular transaction. This specific overview will assess the opportunities as they relate to Intellectual Property (IP).

Purposes and Goals

1. To determine value of a transaction (assets v. liabilities). Does the target company's intellectual property cover what you want it to cover? Are you buying a lawsuit?
2. To ensure compliance with representations, warranties and covenants included in the contract. Does the company own what they claim to own?
3. To satisfy statutory and regulatory requirements.

CARRYING OUT DUE DILIGENCE

Scope

The first step is to determine if the scope will be Limited or Exhaustive. The determination rests on the importance of the target company's intellectual property. Reviewing the purpose of the acquisition should provide some direction.

Get started early and involve IP counsel (internal or external) as soon as possible.

Ask the Right Questions*

Securing the most important and complete information at the start will speed the process. The following list provides the preliminary or baseline information request for a target company. More detailed information should be requested depending on the transaction in question.

1. List and copies of all patents and patent applications for the U.S. and all foreign countries, together with a description of the products, processes or information covered by or potentially covered by the patents or to which they relate.
2. List of all trademarks and service marks, both registered and those for which a registration has been applied.
3. A list of all trademarks or service marks used but no registration has been sought.
4. List of all registered copyrights.
5. Copies of all licenses or agreements concerning patents, trademarks, copyrights, trade secrets, know how or other intellectual property.
6. Copies of R&D contracts, agreements and proposals between target company and any other company.
7. Identification of all claims of infringement against company and license offers received by the company from others.

Understanding the Role of Intellectual Property Counsel

Patents

- Evaluation of the validity of patent. (Depending on the transaction this can be expensive and not necessarily conclusive.)
- Evaluation of the coverage afforded by the patents.

* *Caveat:* Attorney-client privileged documents received from the target company during due diligence activities may waive privilege as to target company.

- Determination of term of patent. Generally, patents are good for 17 years from the date of issue or 20 years from the date of filing. How much life does patent have left? Have maintenance fees been paid?
- Evaluation of ownership of patent. Includes investigation of U.S. Patent and Trademark Office Records as well as state and local records (U.C.C. filings at state and local level are effective for security interests, but not as to BFP.) Are there any assignments recorded?

Inventorship issues that could affect the validity or ownership of a patent may not be easily discovered during due diligence. You may want to consider warranty provisions in the contract that extend for the life of the patent if it involves defects arising from inventorship.

Trademarks

- Confirmation of ownership and clear title to company trademarks, trade names and domain names.
- A review of assignments and licenses, co-existence agreements, settlement agreements and covenants not to sue that could affect validity of trademarks or scope of protection afforded by trademark.
- Identification and evaluation of quality control measures taken by the target company with respect to the target company's licensees trademark use.
- Conduct independent searches for confusingly similar trademarks of others.

Copyrights

- A review of employment and officer agreements and independent contractor and consulting agreements to ensure proper assignment of copyrights.
- A review of all copyright assignments, licenses or transfers. Were all rights transferred?
- A review of Copyright Office records for relevant copyrighted works.
- Evaluation of adequacy of software licenses for software on the target company's computers.

Trade Secrets

- Review and evaluation of confidentiality and non-disclosure agreements concerning trade secrets.
- Evaluation of target company's policies and procedures for employees and others with respect to access, knowledge and maintenance of trade secrets.

- Evaluation of target company's security measures for maintaining secrecy of trade secrets.

Evaluation of All IP Claims Asserted Against Target Company

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