


*Rummaging in the Box:
Due Diligence on an IP Company*


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Due Diligence on an IP Company


- I. The Purpose
- II. The Scope
- III. The Confidentiality Agreement
- IV. The Process



Due Diligence on an IP Company

I. The Purpose


- To determine what bundle of IP rights a company has and the value of that bundle of rights
- To determine the suitability of those rights for the purpose proposed
- Different from due diligence of other assets



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II. What is the scope of the due diligence?


- Depends on proposed transaction and time and money of person conducting it.
- What information will you allow access to?
- Relationships between due diligence and reps and warranties.



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III. The Confidentiality Agreement


- Ensure person doing due diligence signs a Confidentiality Agreement.
- Key aspects of a Confidentiality Agreement
 - Definition of Confidential Information
 - Disclosure (to whom)
 - Reproduction
 - Use
 - Return



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IV. The Process

- A. What is in the box?
- B. How strong is the box?
- C. What is the environment for the box?



Due Diligence on an IP Company

A. What is in the box?

- Has there been a recent IP audit?
- Does the company have an IP strategy?
- Identify the IP assets
 - Copyright material (eg. electronic and printed media such as computer software, art, music, etc.)
 - Domain names
 - Customer lists



Due Diligence on an IP Company

A. What is in the box? (cont.)

- Identify the IP assets (continued)
 - Know how (including information not yet reduced to writing)
 - Patents
 - Trade secrets
 - Trade-marks
 - Industrial designs
 - Plant breeder rights and topography
 - Personality rights



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A. What is in the box? (cont.)

- What is the source of those IP assets?
 - Created by employees or contractors?
 - Have all rights been assigned?
 - Have moral rights been waived?
 - Pollution from previous employers?
 - Assigned? (if so, on what terms and was the assignment registered)
 - Licensed in? (if so, on what terms)



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A. What is in the box? (cont.)

- What rights and interests have been granted to other in the IP?
 - Development agreements (eg. reusable tools)
 - License Agreements
 - Collaboration Agreements and Joint Venture Agreements
 - Confidentiality Agreements
 - Distribution Agreements
 - Source Code Escrow



Due Diligence on an IP Company

A. What is in the box? (cont.)

- Which corporate entities own what?
- What has been disclosed to others?
 - Under Confidentiality Agreement?



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A. What is in the box? (cont.)

- The "KIG" Effect
- Consultancy Agreements
- BMTAs
 - "Biological Materials Thatgot Away"
 - "Big Moneymakers That Arenotmine"



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B. How strong is the box? (G)

- Trade-mark
 - Registered, pending and unregistered
 - index search (including expunged registrations, abandoned registrations and pending applications)
 - registrability search (including trade directories, telephone directories, NUANS and general market searches)
 - opposition search
 - search for non-use proceedings
 - security interests, licenses and assignments
 - Assignments and licenses



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B. How strong is the box? (G)

- Domain Names
 - WHOIS
 - Competing trade-marks
 - Alternates



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B. How strong is the box? (G)

- Copyright
 - Index search
 - Title search (licenses and grants of security)
 - Author search
 - Note US distinctions



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B. How strong is the box? (G)

- Patents
 - Index search (including pending applications)
 - * Inventor search
 - * License and assignment search
 - State of the art search
 - Novelty search
 - Infringement search
 - Validity search



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B. How strong is the box? (G)

- Patents
 - Inventor Search

35USC116: Absent agreement to the contrary, co-inventorship results in co-ownership



Due Diligence on an IP Company

B. How strong is the box? (G)

- Patents
 - Inventor Search

35&SC262: "In the absence of any agreement to the contrary, each of the joint owners may make, use, offer to sell, or sell the patented invention in the United States ... without the consent of and without accounting to the other owners."



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B. How strong is the box? (d)

- Patents

- a. “The nature of a patent is such that the co-owners are at the mercy of each other” (*Willingham v. Star Cutter Co.*, (6th Cir. 1977))



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B. How strong is the box? (d)

- Patents

- b. “Unless the co-owner has given up these rights through an ‘agreement to the contrary’, the co-owner may not be prohibited from exploiting its rights in the patent, including the right to grant licenses to third parties on whatever conditions the co-owner chooses” (*Schering Corp. v. Roussel* (Fed.Cir. 1997))



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B. How strong is the box? (d)

- Patents

- c. “... conception is the touchstone of inventorship, each joint inventor must generally contribute to the conception of the invention” (*Ethicon v U.S. Surgical Corp.* (Fed. Cir. 1998))



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B. How strong is the box? (d)

- Patents

- Licenses

- Royalty Rates
- Milestones - or Mill Stones?
- Improvements
- Anti-Stacking
- Sublicensing/Assignment Rights
- Licensor Warranties - Ownership?
- Patent Portfolio - Control?



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B. How strong is the box? (d)

- Industrial Designs

- Similar to patent searches

- Trade Secret

- Agreements (external and internal)
- Processes

- Other Jurisdictions



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C. What is the environment?

- Third Parties

- Compliance with license agreements
- Dependence on third party product/service



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C. What is the environment? (cont'd)

– Government and Statutory Approvals and Standards

- CRTC licenses
- Pharmaceutical approvals
- Privacy legislation
- Export restrictions
- Competition law
- U.S. Anti-Cybersquatting Act



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C. What is the environment? (cont'd)

– Common Law



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