

Due Diligence of Intellectual Property

Intellectual property is valuable, often making up a significant portion of a business' value. It can be the differentiating factor setting one business ahead of its competitors. A very important aspect of any due diligence therefore must be looking closely at intellectual property. This is often however a neglected aspect, with the due diligence only giving a cursory glance at intellectual property as an afterthought.

The reasons for this include that the true value of intellectual property was never properly appreciated by many businesses. Persons conducting intellectual property also often fail to appreciate that intellectual property is a bundle of rights, comprising more than a list of trade marks and patents printed out from the relevant registers. Also due diligences often focus on the obvious commercial aspects, for example, strength of contracts, commercial risk, tax issues and financial aspects of a due diligence. In this process intellectual property is often overlooked and remains unappreciated.

To avoid making this mistake when conducting a due diligence, intellectual property must be one of the core aspects dealt with in the due diligence. A proper process must also be followed to ensure that the due diligence thoroughly deals with intellectual property.

Firstly, there must be an assessment of what intellectual property an entity has (or at least what the entity believes it has). This involves the obvious step of getting lists of all registrations and applications in the various intellectual property registers (generally, trade marks, patents, designs, plant breeder rights and other registrable intellectual property rights). It is important to get these lists for all the various registers throughout the world where the registrations or applications have been made as these are restricted geographically. To do so, also requires an assessment of what territories the intellectual property is used in.

The assessment of what intellectual property there is must however go further. There must also be an identification of all intellectual property which cannot be registered and all intellectual property which could be registered, but which has not been. Intellectual property which cannot be registered would generally include copyright. This is particularly important for software and similar systems, but could also include drawings, designs, artworks and any other work which is subject to copyright. Potentially registrable intellectual property would include trade marks and slogans which have not been protected. Under certain circumstances, it may also include potential designs. For a meaningful due diligence, there must be a thorough assessment of marketing materials, software, databases and similar potential places where intellectual property could be. Clearly this first step of the due

diligence should go a lot further than the traditional approach of listing registrations and applications of a few kinds of intellectual property.

The second step of the due diligence process involves a thorough evaluation of the intellectual property that was listed following the first step of the due diligence process where the intellectual property was identified.

This evaluation must include checking the applications and registrations of patents, trade marks and other registrable intellectual property. This involves checking whether these have been renewed and if all other relevant deadlines have been met so that the applications and registrations are still valid.

There must be an assessment of the ownership of any intellectual property. For example, was there proper assignment of copyright (if necessary) which an entity believes belongs to it? This is typically a concern with unregistered logos where the copyright in the logo may still belong to the graphic designer who created the logo because there was no written document assigning the copyright. It is also important to check aspects such as legislative requirements regarding foreign exchange, whether entities are still in existence, whether assignments have been duly executed and recorded and other aspects of ownership. Essentially it is important to ensure that the intellectual property is in fact owned by the entity claiming to own it.

The evaluation of intellectual property should then include an assessment of agreements affecting the intellectual property, including licence agreements, co-existence agreements or other agreements affecting the rights of the intellectual property holder. This step involves the more typical aspects of a due diligence, including checking terms of agreement, restrictions, parties and factors affecting the validity of the agreement.

Once the evaluation of the intellectual property has been finalised, there should be an assessment of the risks affecting the intellectual property, including any litigation involving the intellectual property, opinions regarding the intellectual property that may have been obtained, other threats to the intellectual property. Essentially it is necessary to assess the identified intellectual property to determine if it is in fact owned by the entity, if it is valid and to determine what risks are associated with such intellectual property.

Going through the above process will yield due diligence results which are meaningful and add value to any transaction negotiations, financing negotiations or for any other reason why the due diligence is being conducted. A worthwhile due diligence is therefore much more than simply obtaining lists of registrations and applications of certain types of intellectual

property. However a comprehensive due diligence with a proper understanding of intellectual property will mean that the exercise is worthwhile and leads to meaningful results.

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