

INTELLECTUAL PROPERTY DUE DILIGENCE AUDITS

A CHECKLIST

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I EVALUATION OF THE LENGTH AND SCOPE OF THE AUDIT

1. Determine the relative importance of the Intellectual Property (the "IP") in the overall transaction and to goals to be achieved by the audit;
2. Identify and locate all the relevant IP assets that are material to the transaction;
3. Strengthen the "harvesting" base for IP assets;
4. Has the business obtained or secured all rights and authorization to manufacture and sell certain products without infringing?
5. Is the audit only the "Canadian Portion" of an international transaction?
6. Will there be onsite interviews, with business and/or technical people or simply questionnaires?
7. Will the audit be multi-site?
8. You will need to highlight the differences, real and potential, whether the proposed transaction is an asset or a share transaction, a merger or a joint venture, etc.

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* Lawyer, François Painchaud is a senior partner in the lawfirm LEGER ROBIC RICHARD, g.p. and in the patent and trademark agency firm ROBIC, g.p. This material was originally designed for the purpose of a seminar given during the Intellectual property Law in a day sponsored by the Patent and Trademark Institute of Canada at St-John's – Newfoundlandon 1998-10-01. Publication 231.

II GATHERING OF INFORMATION FROM THE TARGET

1. The Onsite Interviews

This will serve to identify the products, categories of products, services, technologies and other elements of IP to be audited (the "Elements") with the relevant people of the target business. This stage should seem natural for the individuals of the target and should avoid legal issues or questionnaires that are too legalistic; questions whether written or verbal should appear and feel very businesslike. It is during this stage that the auditor gains a global view of the work ahead and can reconcile its legal work with the real-life business of the target.

- 1.1 At R&D Level Obtain a summary for each researched Element carried out, the development process, names of all the individuals that have worked on the R&D and their basic information such as names, status of employment, if a person is a consultant, its functions and status of employment by another business than the target.

What kind of documentation is produced by these people?

- 1.2 At the Product Manager Level Obtain information on past and present managers for each Element audited, specify the functions of such product manager as much as possible.
- 1.3 At the Marketing Level Obtain information on every individual associated with each Element audited, whether or not they were employed, independent contractor or employed by consultants with addresses, including all consultant corporations associated with each Elements. Obtain a listing and copies of advertising material, including work-in-progress, video and audio tapes, printed material, etc.
- 1.4 Try to plan a tour of the site or sites that are material to the targeted Elements if at all within the budget of your client.

2. The Contracts Review

This is the first of the formal and legalist portion of the audit. Hopefully, step 1 will have given you a head-start on what to expect; the analysis will also vary in light of the structure of the transaction. At this point, a formal written request of the following should be made (the goal is to obtain all contracts relevant, directly or indirectly, to IP issues and IP assets, work from the bottom up:

- 2.1 R&D
 - 2.1.1 Employment agreements;
 - 2.1.2 Independent contractor/consultant agreements;
 - 2.1.3 Research agreements (university/private research, etc.);
 - 2.1.4 Joint development agreements;
 - 2.1.5 Raw data agreements (also 2.2.4);
 - 2.1.6 Pharmaceutical: "Biological" material agreements;
- 2.2 Agreements that bring the Elements Together
 - 2.2.1 Outright purchases, i.e.: assignment of Elements, IP rights of third parties or transfer of knowledge agreements;
 - 2.2.2 "In" licences;
 - 2.2.3 Joint ventures;
 - 2.2.4 Data agreements (also 2.1.5);
 - 2.2.5 "Pooling" agreements;
- 2.3 Agreements enabling the target to sell (or more generally "move") its products or services
 - 2.3.1 Distribution agreements;
 - 2.3.2 Marketing or co-marketing agreements;
 - 2.3.3 Co-promotion agreements;
 - 2.3.4 Franchise agreements;
 - 2.3.5 Software: VAR/OEM agreements;
 - 2.3.6 Software: end-user, site or business licence agreements;
 - 2.3.7 Data agreements (markets data, survey data, etc.);
- 2.4 Other general agreements affecting the target
 - Affecting the target negatively;

2.4.1 Non-competition agreements/covenants of the target;

2.4.2 Confidentiality agreements;

2.4.3 "Out" licences;

Affecting the target positively:

2.4.4 Non-competition agreements/covenants of third parties;

2.4.5 Confidentiality agreements;

Corporate:

2.4.6 Shareholders partnership agreements and other constating agreements;

2.4.7 Hardware and software agreements;

2.4.8 Collective bargaining agreements, technology development policies (see university policies for teachers);

2.4.9 Settlement agreements (to cross reference with the litigation audits).

3. Corporate Documents of the Target

Again as for section 2, the goal is to obtain information as to the IP assets, here documentation such as internal procedures as well as possible disclosures of the corporation should be included.

3.1 R&D procedures policy

3.1.1 Log books of researchers and technicians;

3.1.2 Research policy per say;

3.1.3 Procedures ensuring confidentiality in laboratories and R&D facilities.

3.2 Others

3.2.1 Prospectuses and annual information circulars (very important in smaller highly technical business where such documentation may often disclose information that could otherwise have been thought to be confidential and sometimes even patentable);

3.2.2 Hiring policies;

- 3.2.3 Trade-marks lists and files (registered or not);
- 3.2.4 Patent lists and files (registered or not);
- 3.2.5 Trade secrets (including formulas);
- 3.2.6 Copyrights (registered or not);
- 3.2.7 Other IP lists, if any, such as industrial designs, plant varieties, topographies, etc.

III OUTSIDE GATHERING OF INFORMATION ON EACH SPECIFIC IP AND SEARCHES

1. Information available at the Canadian Intellectual Property Office ("CIPO") and the other offices worldwide

1.1 Patents *

- 1.1.1 Compare the target's lists of the CIPO and the other offices, obtained through index searches or, now, through the net or other data bases;
- 1.1.2 Copies of patents and file wrappers, i.e.: the file of the examiner to review the value of the patents of the target;
- 1.1.3 Copies of published patent applications;
- 1.1.4 Patentability searches or review of past patentability searches and updates;
- 1.1.5 Non-infringement searches or review of past or non-infringement searches and updates;
- 1.1.6 State of the art searches and other;
- 1.1.7 Review the register for licences and security interests.

* Patent searches will not necessarily reveal all information such as unpublished application (up to 18 months from filing), and in the United States, applications are not published, if the country of Canada is included in a PCT application, it will not be known until the application enters into the national phase (i.e.: in Canada).

1.2 Trade-marks *

- 1.2.1 Compare the target's lists with public lists of the CIPO and others, obtained through index searches or, now, through the net or CD-ROM;
- 1.2.2 Review at the TMO of file wrapper of the trade-marks that are material to the business;
- 1.2.3 Review at the TMO of past and current oppositions;
- 1.2.4 Consider, whether or not, to review the former registered user register of the target trade-marks;
- 1.2.5 Consider reviewing other sources, such as trade publications, telephone directories, corporate names, etc.;
- 1.2.6 Review the register for security interests;

* Trade-mark searches will not necessarily reveal all information such as recent applications (there is, generally, a delay between the filing of the application and the time where the application number is assigned). Abandoned applications and expunged registrations should be included specifically.

1.3 Copyrights *

- 1.3.1 Review of the register through an index search and compare with the target's lists;
- 1.3.2 Review the registration of licences and security interests;
- 1.3.3 Consider researching via an author search to locate various authors;

* It must be kept in mind that many (the word "many" should be emphasised) copyrights are never registered.

1.4 Industrial Design *

- 1.4.1 Review of the register through an index search and compare with the target's lists if any;
- 1.4.2 Review the registration of licences and security interests;
- 1.4.3 Other searches similar to patent searches may be carried out when deemed appropriate;

* See our comments for patents above.

1.5 Topographies and Plant Breeders

Specific searches may be carried out on these registers whenever appropriate; they will usually occur when the target is in such a specific trade;

P.S.: The Plant variety register is kept by Agriculture Canada.

2. Information Concerning Security Interests and Hypothecs *

The security interests and hypothecs granted on IP will not always appear on the IP registers although for some IP assets it is required by law. A review of the proper administrators of Personal Property Security Legislation should also be carried out (such as in Ontario, the *Personal Property Security Act* or, in Quebec, the *Registry Office of Personal and Movable Real Rights*). The following are issues to keep in mind when looking for security interests and hypothecs.

- 2.1 A prior assignment of a copyright is void against subsequent assignee for valuable consideration or licensee unless notice is given or registration is made in accordance with the act (sec. 57(3) *Copyright Act*).
- 2.2 A prior assignment of a patent is void against subsequent assignee for valuable consideration unless registered in accordance with the act (sec. 51 *Patent Act*).
- 2.3 A prior assignment of a plant variety is void against subsequent assignee for valuable consideration without notice who becomes the registered holder unless the prior assignee is registered prior to this subsequent assignee (sec. 31(3) *Plant Breeder's Rights Act*).
- 2.4 The *Trade-Marks Act*, *Industrial Design Act* and *Integrated Circuits Topography Act* do not make reference to priorities, although it is regular to see the recordal of security interests or hypothecs on such registers.

* Although an academic discussion is still going on as to which of the Federal or Provincial legislation has jurisdiction over the faith of a security interest or hypothec on the various IP assets, in a due diligence exercise, they should all be verified. The Patent Office (which includes Industrial Designs) and Copyright Office do register security interests or hypothecs against a registration of a specific IP assets. In the case of the Trade-Marks Office, it does not do so, however it places on file a copy of such security interest or hypothec.

IV CONCLUSION

Other sources of information specific to each case may or should be considered such as, just to name a few, in the case of a pharmaceutical company, information available at the Patented Medicine Price Review Board ("PMPRB"), and at the Health Protection Branch ("HPB") of Health Canada and in the case of information technology making use of restricted inscription technology a review of the import and export control laws in Canada and mostly in the United States should be considered.

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+ BUSINESS
+ SCIENCE
+ ART

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+ SCIENCES
+ ARTS

