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ISBN-10: 1-55093-709-X
ISBN-13: 978-1-55093-709-1

Intellectual Property Due-Diligence in Commercial Transactions

Intellectual Property Law for Non-IP Lawyers

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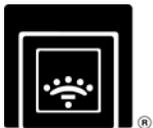
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For presentation in:

Edmonton, Alberta – February 5, 2019

Calgary, Alberta – February 12, 2019



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INTELLECTUAL PROPERTY DUE-DILIGENCE IN COMMERCIAL TRANSACTIONS

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INTRODUCTION

Intellectual Property (IP) is an important part of almost every commercial transaction. Ocean Tomo reports that the value derived by intangible assets of S&P 500 companies increased from 17% in 1975 to 84% in 2015.¹ The inescapable reality is that almost every business is a high tech business that is dependent upon technology to survive and grow. Modern farmers take advantage of data mining to optimize crop selection, yield, fertilizer use and planting patterns. Oil field service companies make use of sensing and analytic technologies. As Bob Dylan sang “don't stand in the doorway don't block up the hall for he that gets hurt will be he who has stalled”.² In biology, only two things are possible – growing or dying. The same is true in business.

Virtually every commercial transaction involves some evaluation of IP. An unfocused review of the IP assets of a target may be counterproductive if it results in a costly process yielding relatively useless information a mile wide and an inch deep. Blind adherence to IP due-diligence lists should not be the preferred approach.

In this paper, we discuss tying the scope of IP due-diligence to the overall objective of the commercial transaction. In doing so, we discuss: 1) the types of IP rights that are affected by commercial transactions; 2) the goal-driven perspective that should govern IP due-diligence processes; and 3) why a buyer should not just rely upon the seller's representations and warranties.

TYPES OF IP RIGHTS THAT MAY AFFECT A COMMERCIAL TRANSACTION

Understanding the nature of IP rights is an important part of delineating the scope of the IP due-diligence process for a specific transaction. IP rights affecting commercial transactions include patents, trade-marks, copyright, industrial designs, domain names and trade-secrets. Apart from trade-secrets, IP rights are negative in nature. In this regard, a patent does not give the patentee the right to do that which is claimed in the patent because the patentee may be infringing the patent rights of another. An analogy may help to explain this concept. Imagine the first person to invent the wheel. That person made an invention that is new, useful and not obvious and has filed a patent application in whichever country that person seeks to obtain protection. In obtaining a patent, the patentee will be given a claim or series of claims that prevents other people from making, using or selling that which is set out in the claims, in this case a wheel. One of the purposes of patents is to encourage the disclosure of useful scientific information so that others can improve upon the technology disclosed. A subsequent inventor may come along and realize that if a wheel with a

¹ <http://www.oceantomo.com/intangible-asset-market-value-study/>

² Bob Dylan, The Times They Are A-Changin' (1964)