


Morag Macdonald
Nicola Maguire

Due diligence pitfalls

Early preparation for a thorough IP due diligence has the potential to save companies a great deal of time and money further down the line

Many companies are eager to take the opportunity to list once investor confidence returns to the markets; those which will be successful are likely to be the ones that are best prepared and can move fastest. A potential purchaser of a target with an efficient and well organised due diligence process is less likely to find surprises, ensuring that the seller maximises value. The seller will be able to make proper and specific disclosures against warranties, reducing exposure to a claim. The risk of directors taking responsibility for the contents of a prospectus will be minimised. Here are some tips on how to get your company into shape.

IP health check Companies whose products or services are based on IP need to be able to demonstrate that they own all of the rights required to run their business. Prepare a centralised list of all IP you own. Patents, trademarks and design registrations should be reviewed in all jurisdictions, checking the status of filings and that fees have been paid. Where any IP has been purchased from a third party, review the details of the registered proprietor to ensure you have proper title. Unregistered IP should be identified and checked. Seek to rectify any problems with ownership prior to any due diligence exercise. Make diary entries of renewal dates to ensure that they are not missed.

Assessing the risk and importance of IP Assess what IP is critical to your business. For the most essential rights consider the potential risks of third parties developing similar products or services that may compete with your own and determine ways of preventing this.

Pursue third party infringers and anticipate disputes For your portfolio to be a valuable asset you need to continually seek to enforce your rights against third party infringers. Institute a watching brief on patents filed by competitors for potential infringing or blocking technology. If you hold European patents instigate a proper procedure for reviewing whether oppositions should be filed to competitor filings in the European Patent Office. Educate your sales force so that they are aware of the issues and notify you of potentially infringing products. In this way, you should become aware of situations that may affect your IP rights at an early stage and be able to address problems quickly and more cost effectively, so minimising damage.

Safeguarding confidential information and know-how Much of your most valuable IP will be retained within the minds of key employees, consultants and contractors. Ensuring this confidential information and know-how does not leak into the public domain is an essential element of any IP protection policy. To understand the nature of this IP, interview relevant employees to record exactly what they know and take action to ensure that employees are contractually bound not to disclose the information to third parties. This can be done by obtaining confidentiality undertakings and restrictive covenants that they will not work for a competitor if they leave, set up in competition with you or poach your employees.

Care must be taken to ensure that any IP developed by team members belongs to the company. The general law provides that IP developed by an employee during the course of his employment will be the property of his employer but the position is not the same for a consultant or contractor. IP belongs to an individual unless an agreement with them expressly provides otherwise.

Data trail Establish good practices for ordered data management from the initial stages of your company's growth. Demonstrating that you have the right to use IP or that it was developed by your company will be essential. Ensure that proper records are kept of all technological developments and that detailed lab notebooks are maintained and are owned and retained by the company.

Collaboration agreements/licences When entering into collaboration agreements or licences-in of new technology and licences-out of your own IP to third parties, it is essential to look at the arrangements as a whole rather than concentrating solely on what is agreed in each contract. Analyse all the contracts for each product or service to ensure the financial arrangements make commercial sense. Are the royalties the company will pay out on its licences-in greater than those it will receive on its licences-out? Consider whether the timing of milestones in related contracts ties together; if there is slippage on one contract could this result in penalties being paid or even termination under another?

Regulatory Many companies which are reliant on IP for their services or products operate in a heavily regulated environment. Up to date compliance with all regulatory requirements and registrations is essential and detailed and orderly records should be maintained.

Anti-trust issues There is a tension between the monopoly granted to a patent holder and other restrictions which could contravene anti-trust legislation; for example, stipulating the price a distributor must charge for your product and specifying the markets into which your product may be on sold. Provisions such as these (whether in writing or agreed verbally) may contravene anti-trust legislation and could be unenforceable and result in substantial fines.

Shared IP Contracts sometimes provide that different parties will share or have rights to use the same IP. Take care to ensure that each party's rights are sufficiently delineated. If IP is jointly owned, is it clear that each party can only use the rights in a particular field or is there any overlap? Is the field of use sufficient for your intended use of the technology?

Being prepared means identifying the risks now to ensure that you avoid due diligence disasters later when it matters most. It will enable you to rectify any issues before time becomes critical and potentially embarrassing errors have to be explained to a purchaser or investor.

Morag Macdonald *is head of the international intellectual property department at law firm Bird & Bird, London.*
morag.macdonald@twobirds.com.
Nicola Maguire *is a partner in the corporate group of Bird & Bird. She has particular experience of transactions involving companies with a significant reliance on IP.*
nicola.maguire@twobirds.com