



Training Academy Session #17

Avoiding Pitfalls in Acquiring an Intellectual Property Portfolio

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What is an Intellectual Property Audit?

- Intellectual Property Assets.
Identification, organization and review of existing intellectual property assets – patents, trademarks, trade names, domain names, copyrights, trade secrets, and contractual rights and obligations.
- Intellectual Property Liabilities.
Liabilities – Potential claims of intellectual property infringement – patents, trademarks, copyrights, trade secrets, software.

What is the Nature of Intellectual Property Assets?

- *Patents* – A United States patent grants the right to prevent others from making, using or selling an invention for a limited period of time. The invention must be new, useful and nonobvious.
- *Trademarks, Trade Names and Trade Dress* – Involves those words, logos, product designs, product packaging, etc., used to identify and distinguish one's goods or services from those of others.
- *Copyrights* – Protects original expression in many forms, but not the ideas themselves.

What is the Nature of Intellectual Property Assets?

- *Trade Secrets* – Any idea, formula, pattern, device, process, data or information of competitive value which is not protected by a patent and not known or accessible to others.

Who Can Benefit From an Intellectual Property Audit?

Buyers who are:

- Acquiring stock or assets of a high-technology manufacturing or service organization.
- Purchasing licensing or distribution rights.
- Purchasing a patent or license to make, use or sell a product or process.
- Purchasing rights to a product under development.

Who Can Benefit From an Intellectual Property Audit?

Investors who are:

- Considering funding a start-up company.
- Financing an existing technology-based business.
- Considering accepting a security interest in intangible assets.
- Entering a joint venture with a technology partner.
- Underwriting a public offering of a high-technology company.

Who Can Benefit From an Intellectual Property Audit?

Owners who are:

- Depending upon intellectual property as a principal component of their company's value or the value of a subsidiary or affiliate.
- Licensing technology assets to others.
- Facing or asserting possible litigation involving intellectual property.
- Experiencing diminution in market share from knockoffs or pirated copies.
- Selling stock/assets of a high-technology manufacturing or service organization.
- Engaging in domestic or international commerce involving high-technology products.
- Considering changing the tax status or accounting method for their technology.

Auditing Patents

- Ownership/Title
 - Review invention assignments and employment agreements (key inventors), and any other related agreements.
 - Searches
 - Online searches, the underlying documents
 - Security interest – UCC
 - Foreign ownership rights
 - Are you getting everything (portfolio listings are often inaccurate)
 - Status
 - Shepardizing
 - Maintenance and annuities

Auditing Patents

- **First to file country**
- Invention Documentation
 - Lab notebooks or “Record of Invention”
 - Invention disclosure forms
 - Incentive programs
 - Maintaining Portfolio records
- Log Books/Bound Notebooks
 - Maintained on a daily basis by all personnel involved in designing a product
 - Should reflect outline of conceptual phases of the project
 - Include sketches and drawings
 - Each entry should be dated, signed by the inventor and witnessed by at least one (preferably two)

Auditing Patents

- Patent Analysis for Important Products, both ways
 - Title Check
 - Scope of the patent
 - Does it cover the product sold and how well
 - Marking
 - Publication or first sale
 - Prosecution Histories
 - Validity studies
 - Searching
 - Infringement Searches
 - What to do with discovered infringement
 - Opinion Letters
 - Knowledge of competitors

Auditing Trade Secrets

- Identification and memorialization of secret
- Identify the value
- Secrecy and security

Auditing Trade Secrets

- Preventing disclosure from within:
 - Safe handling – “need to know” disclosure
 - Employee agreements
 - Confidentiality agreements
 - Speech and publication policy
- Preventing discovery from without:
 - IT Security
 - Address “reverse engineering” possibility
 - Former employees

Auditing Trademarks and Copyrights

- Compile an inventory – registered and unregistered, licenses, consent agreements:
 - Coordinate with Intellectual Property counsel
 - Computerized searching
 - Product/literature review
 - Meet with Marketing
 - Exclusive / non-exclusive / sublicenses
 - Whether consent still needed
- Check chain of title:
 - Assignment history – internal and recorded documents
 - Plan for perfecting or corrective action
 - Get signatures and proper authentication/legalization

Review Corporate Policy

- Written
- Provided to all employees
- Process for selecting and registering marks
- Policy for licensing
 - Domain name registration
 - “Do’s and don’ts” of usage
 - Copying policy
 - Trade Secrets

Managing Trademarks and Copyrights

- Policy for what marks and works to register federally
- Program for maintaining data on applications and registrations
- Keep examples of use in one place (“Trademark Box”)
- Review for proper marking:
™ or ®, proper copyright notice
- Review Web site for adequate legal notices and “click through” agreements
- Confirm all computer software is properly licensed.

Acquisitions

- Title and status searching:
 - Do not take the other side's word for it
- Validity analysis:
 - Vulnerable to Non-use cancellation / Expungement / Reexamination
- Assignments and Chain of Title:
 - Act promptly
 - Get necessary documentation – Deeds of assignment
 - Signing of documentation – Notarization / Legalization
 - U.S.- Assignment of intent-to-use applications to successor
- Infringement analysis
- Identify litigation involving marks, copyrighted works
 - Get status reports from counsel.

Dealing With Discovered Infringements

- Enforcement of properties to be acquired:
 - Trademarks
 - Copyrights
 - Patents
- Infringement Avoidance, Defensive Strategy and Minimizing exposure:
 - Redesigns
 - Renames
 - Inbound licensing
 - Phase-outs and sell-throughs
 - Revisiting IP policy to prevent recurrence
- Seek the view of outside IP counsel

Which Information and Documents are Pertinent?

- Registration, renewal, and recordation documents (e.g., patent grants as well as trademark, domain name, and copyright registration certificates)
- Pending patent, trademark, and copyright application files (including all correspondence, filings and background documents relating to the application at issue)
- Uniform Commercial Code filings
- License and maintenance agreements

Which Information and Documents are Pertinent?

- Distribution, manufacturing and supply agreements
- Government contracts
- Employee and consultant agreements (including termination agreements)
- Source and object code
- Flow charts, technical specifications and other design documents

Which Information and Documents are Pertinent?

- Journal articles, published papers, and textbooks
- Notes of design meetings
- Competitive analysis documents
- Marketing files

Which Information and Documents are Pertinent?

- Sales catalogs, promotional materials, trade show records
- Business plans
- SEC filings (Annual Reports)
- Confidentiality, nondisclosure, and non-competition agreements

Which Information and Documents are Pertinent?

- Agreements concerning the sale, assignment, licensing, granting of a lien, or other transfer of patents, trademarks and copyrights to a third party
- Agreements concerning the purchase, license, acquisition or receipt of a lien of patents, trademarks and copyrights from a third party
- List of all software installed on company's computers
- Software License Agreements

Which Information and Documents are Pertinent?

- Pleadings and other relevant documents regarding all past and present litigation concerning intellectual property rights
- Agreements by which the company has been indemnified by a third party against claims of infringement of intellectual property rights

Which Information and Documents are Pertinent?

- Insurance policies providing coverage for claims of patent, trademark or copyright infringement
- Copies of all patentability, registrability, infringement and validity searches and opinions relating to patents, trademarks and copyrights

What Questions to Ask

- What was the origin of the property?
- When was it first conceived and when was development completed?
- When was a trademark or service mark first used?
- Who are the people who could claim to be an inventor or author?
- What types of intellectual property might be available to protect the property?
- Did any person use any trade secrets or copyrighted or patented technology of others in the development, support or enhancement of the property?

The Questions to Ask

- Does any third party have intellectual property rights that could be violated by past or future uses of the property?
- Have any offers of licenses or assertions of property rights been received?
- If vendors or consultants were used in the development of the property, have adequate measures been used to protect the interests of the hiring party and to ensure that the hiring party owns the rights to property developed by the vendor or consultant?

The Questions to Ask

- If any part of the property was purchased or licensed from third parties, what rights were acquired and are there obligations that have been or could be breached that might cause a reversion of rights?
- Has the property been licensed to or derived under work with a government agency requiring special procedures in order for rights to be retained by the developer?
- Have necessary federal and state registrations been made, and transfers recorded with appropriate agencies?

The Questions to Ask

- Have required affidavits of use or other postregistration requirements (such as payment of maintenance fees) been complied with?
- Has the property been used to secure performance of any obligations?
- Do third parties own any license rights, joint ownership rights or other rights in the property?
- Is the property substantially similar in function, appearance or coding to the property of others?

The Questions to Ask

- If unique portions of the property are held in escrow, what are the conditions for release?
- What efforts are made to prevent information that provides a competitive advantage from being learned by third parties, including competitors?
- How is protection provided for creative works produced by third parties?
- What products and technologies compete directly or indirectly with those of the company?

The Questions to Ask

- What is the company's formal name and entity?
- What are the company's current and past assumed names and nicknames?
- What are the names of the company's current and past products and services?
- How does the company advertise?
- Does the company have any material trade secrets, know-how or technical information?

The Questions to Ask Seller [Checklist]

- What types of information does the company consider sensitive and confidential and would prefer not to make publicly available?
- What information does the company tell its employees not to share with third parties?
- What competitive advantage is provided to the company by its trade secrets?
- Does the company use the image, likeness, voice, signature, name or any other indicia of a person's identity or "rights of publicity" in its advertising or marketing efforts?

The Questions to Ask Seller

- Does the company have any procedures regarding docketing and tracking agreements?
- Does the company have any procedures for ensuring that only authentic legal software is purchased and used on company equipment?
- Is seller aware of any infringement of its patents, trademarks or copyrights by others?

The Questions to Ask Seller

- Has seller received any threats of infringement or notices of others' patents, trademarks or copyrights?
- Has seller granted to others any licenses under its patents, trademarks or copyrights?

The Questions to Ask Seller

- Has seller obtained licenses from others to practice any of its technology?
- Has seller performed any patentability, infringement and/or validity searches with respect to any of its patents or the applications from which they issued?
- Has seller obtained patentability, infringement and/or validity opinions with respect to any of its patents or applications?

The Questions to Ask Seller

- Has seller performed any searches and/or obtained any opinions with respect to patents, trademarks or copyrights of others relating to the technology?
- Have any other potential buyers, investors, licensees or potential licensees performed due diligence investigations with respect to any of seller's patents, patent applications, trademarks or copyrights? If so, request seller to provide introductions to such parties to obtain access to due diligence investigations by others.

The Questions to Ask Seller

- Are there any unrecorded Assignments with respect to any of seller's patent, trademark or copyright properties?
- Are there any pending non-published U.S. applications? If so, obtain Powers to Inspect and make copies from the USPTO files (do not rely on copies from seller or his attorney).

The Questions to Ask Seller

- Ask seller to identify which patents, trademarks and copyrights in its portfolio are considered to be most important for its technology and business, and why?
- Is seller aware of any related prior art not cited in the U.S. applications?
- Ask seller to identify all of its related companies (double check by Dun & Bradstreet family search or other online service).

The Questions to Ask Seller

- Are key inventors of seller still employed by seller? Are they still cooperative?
- Have inventors of patents made any public presentations or given papers regarding patented inventions? If so, obtain details.

Speakers



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