



# INTELLECTUAL PROPERTY ISSUES ON A SALE

AN EVOLUTION CBS WHITE PAPER

## Special points of interest:

- *Due Diligence*
- *Unregistered I.P.*
- *Assignment of I.P.*
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The importance of intellectual property in a share or asset sale will depend on the nature of the business that the company is engaged in. However, all businesses will to a certain degree either own or use IP under licence.

If ownership or valid use of IP cannot be proved this will be of concern to a buyer, who may ask to pay less or/ and require protection from the seller. It is therefore essential that consideration is given to IP and how to deal with IP throughout the sale process.

### DUE DILIGENCE

As part of the sale process the buyer will carry out due diligence to determine:

- what IP does the business use or require in order to carry on its business?
- is that IP either owned by the company or licensed to it?
- if the IP is licenced, what are the terms of the licence?
- what proof does the company have that it either owns full title to or has a licence to use the IP in the manner that it is currently

used?

- to what countries does the IP apply and is this geographic coverage sufficient for the business;

In respect of IP that is subject to registration due diligence is straightforward as either the IP is registered in the company's name or it is not. Some registered IP can be revoked on application by third parties and so the due diligence in respect of core technology may extend to a consideration of similar technology.

## IP not subject to registration

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In the case of IP that is not subject to registration, ownership issues can be more complicated. For instance if the material in which the IP exists has been developed by a third party the IP may belong to the third party. When the third party was engaged it would be usual for the contract of engagement to have included an obligation on the third party to transfer all IP to the com-

pany. If such an obligation exists it should be enforced. If none exists then steps must be taken to procure that title in the IP is assigned to the company.

Where the company uses the IP pursuant to a licence the terms of the licence should be considered to determine:

- whether in the case of an asset sale the licence is

assignable to the buyer and if so on what terms?

- whether on a share sale there are any change of control provisions that could lead to termination of the licence;
- whether the rights granted by the licence are sufficient for the buyer's future plans for the business.

## Assignment of I.P.

Once questions of the existence, ownership and assignability of IP owned or licenced to the business have been answered both the seller and the buyer must evaluate the IP.



Matters to consider include:

- are there any unregistered IP

such as trade marks which should be given the protection afforded by being registered in all relevant markets?

- if there is any doubt about the company's ownership of any IP (because for instance the material was developed by a third party) how is that issue to be resolved?
- is the geographic protection given by the existing IP sufficient?
- if important technology is inadequately protected by patents, is confidential know how about the technology held by employees

and, if so what steps need to be taken to protect that know how?

- if licences of business critical IP could be terminated on a change of control or there is a possibility that they may not be assigned what alternative IP is available?

## Warranties

IP CAN BE A VERY IMPORTANT ASSET OF A BUSINESS GREATLY ADDING TO ITS VALUE.

The nature of the warranties that will be required in respect of IP will depend on the importance of IP to the business and what has been discovered

during due diligence. The following are likely to be required:

- that the company has all material or relevant IP required by the business;
- that all IP owned by or licenses granted to or by the company have been disclosed;

- that the IP owned or licenced to the company does not infringe any third party rights;
- that no third party is infringing IP owned by the company;
- that all registered IP continues in force, all fees have been paid, all necessary filings have been made and the registrations are not open to challenge.

In addition to the warranties it is likely that separate warranties will be sought in respect of computer software as part of warranties relating to information technology used by the Company.

IP can be a very important asset of a business greatly adding to its value. A lack of IP protection for core assets or products or a failure to maintain and enforce IP belonging to a business can reduce the value of a business and endanger its survival. For these reasons proper due diligence and evaluation of IP should always be carried out as part of a sale by specialist IP lawyers followed by careful consideration of how to deal with matters raised in that process.

## About the Author



Ian is a corporate partner at Fladgate LLP and specialises in private and public Mergers and Acquisitions, with particular focus on recruitment and entertainment companies.

Ian read law at Cambridge University. He holds the Corporate Finance qualification of the Institute of Chartered Accountants.

Ian is regularly asked to contribute as an expert to business and legal publications.

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