

# Intellectual Property Due Diligence

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## What is?

- It is the legal recognition of the right of an individual or a company to claim ownership and exclusively exploit the produce of their intellectual or mental exertion as may be manifested in invented product/process; creative works of knowledge/entertainment, aesthetics appeal of products or trade insignias of products/services.
- The laws of many nations recognize private ownership of property and most of these laws define property to include IP. International treaties, conventions and protocols further reinforce these rights between and among contracting States.



## Nature of

- IP is *incorporeal/intangible/abstract* in nature.
- It relates to the pieces of information which can be incorporated in tangible objects at the same time and in an unlimited number of copies; ***the property being the information reflected in those copies and not the copies themselves.***
- It focuses on the rights which are enjoyed in the produce of the mind, rather than the produce itself. The notion of IP is not in concrete form characteristic of real property, it is rather of a relatively amorphous character and a highly abstract concept of property.
- In real terms, therefore, IP is the body of ***legal rights*** which may be asserted in respect of the product of the human intellect, e.g. the information contained in a book and not the book as a physical object.





## Types of

- Intellectual property is divided into two categories:

- ❖ **Industrial Property** which includes,

- patents for inventions,
- trademarks, trade secrets,
- industrial designs **and**

- ❖ **Copyright** which covers,

- Literary works such as novels & computer programs
- Musical works
- Artistic works
- Audio-visual works
- Sound recordings
- Broadcasts

## IP Law, therefore:

- IP law regulates the **creation, ownership, use and exploitation** of the abstract rights derived from creative products.
- It is the mechanism by which the society **protects the interests** of creators by granting them property rights over the creations and inventions emanating from the power of their minds.
- Protects artistic creativity, scientific progress, investment in the business industry and in general, information and ideas worth of commercial exploitation by granting exclusive rights to their owners in order to enjoy the 'fruits of their labour'.





## Rationale

- Intellectual creations are fundamental tools for the progress, well-being, socio-cultural and economic advancement of the society and such creators must be rewarded for their efforts in order to continue to inspire creativity that would engender a prosperous knowledge-based economy.

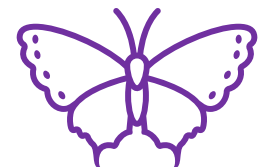
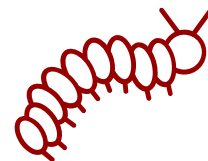
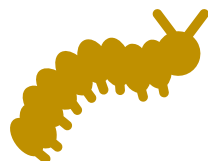
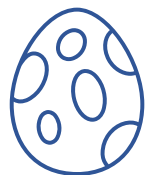
## Traditionally...

- Physical assets were traditionally responsible for the bulk of the value of a company.
- The value of IP was in its use as a sword and shield: to attack and to ward off attacks.
- Exclusivity was everything.
- Businesses relied solely on tangible assets to gain competitive advantage; IP was not considered to be an asset.
- Commercial transactions involved tangible assets only.
- IP was considered as a cost-centre.



## Emergence of knowledge-Based Economy & the Mutation of IP!

- The emergence infotech and knowledge-based economy have put intangible assets at the forefront of commerce.
- It is now the Cinderella of the law and the doyen of the assets of a company as businesses now thrive on innovations and solutions brought about mental exertion protected as IP.
- It has become key to maintaining a competitive advantage – businesses thrive on innovation.
- Therefore, IP is now one of the most valuable or often the most valuable asset in commercial transactions – a core subject of contracts.
- It has moved from being a cost-center to being a revenue stream of the company.





## What is IP Commercialisation?

- The process of bringing IP to the market in order for it to be exploited in return for business profits and/or growth
- Process of getting your IP to market and/or creating new revenue streams, whether on your own, through a partnership or via a combination of the two
- Starts with reviewing your IP portfolio to identify IP assets that may be capable of monetisation – IP audit.





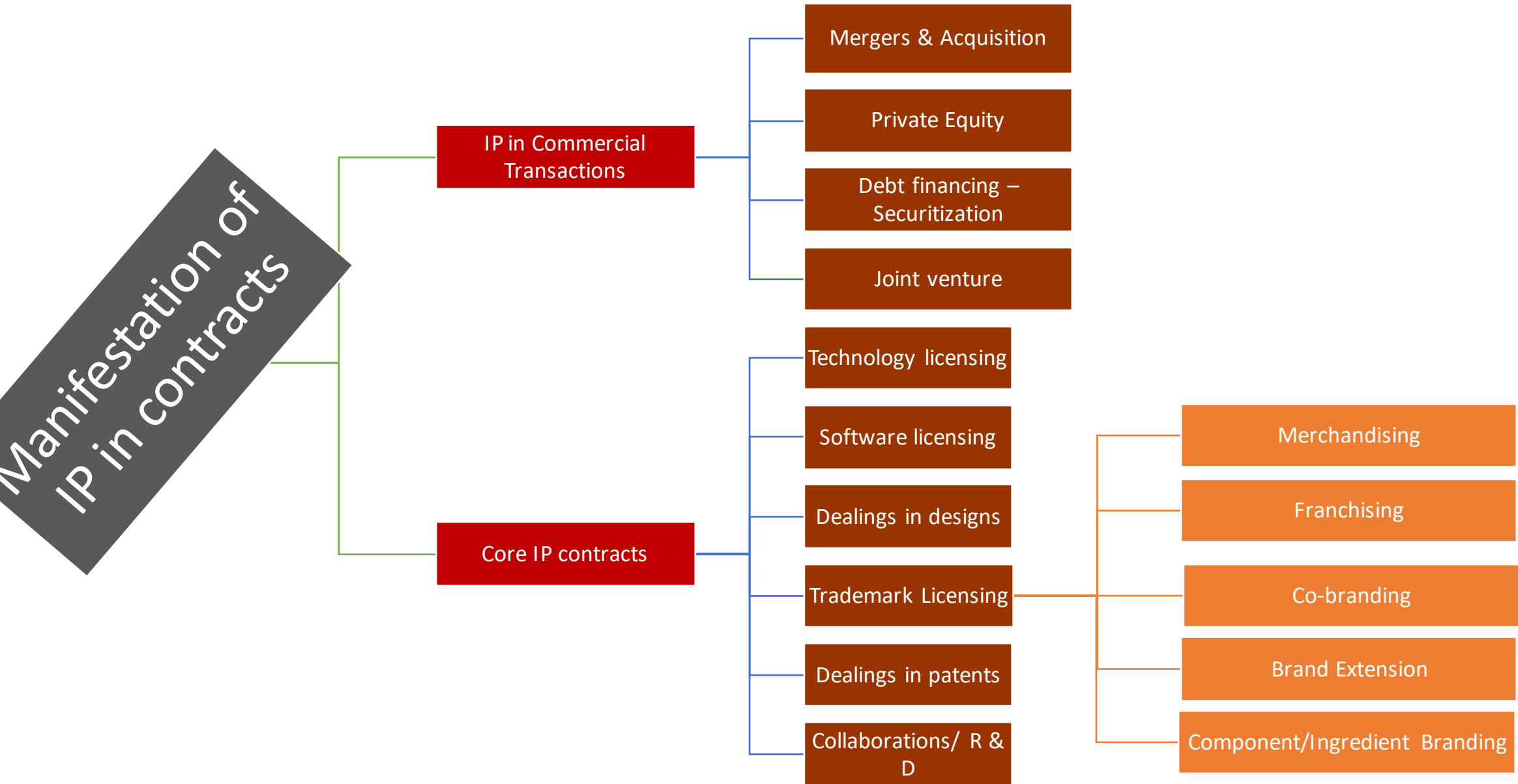
Self Exploitation

Debt Financing

Assignment

Licensing

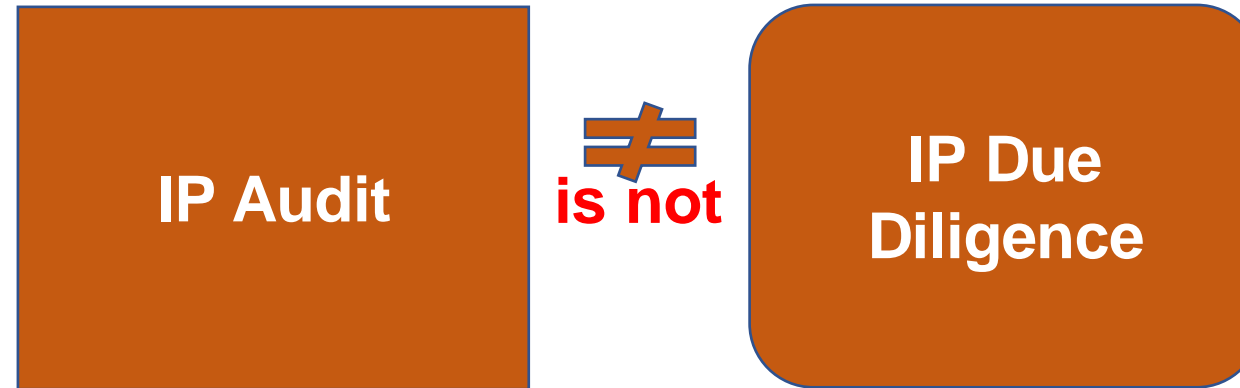
# • IP Contracts



## *IP Due Diligence*

- A comprehensive evaluation carried out by a prospective buyer or licensee towards assessing the financial, commercial, legal benefits and risks linked to a target company's IP portfolio before it is bought or invested in - *paraphrasing Prof. A Damodaran, Indian Institute Of Management.*
- A legal exercise wherein skilled IP counsel defines, examines and analyzes an IP portfolio of a target company, either offensively (to purchase or in-license) or defensively (to sell or out-license). - *Managing Intellectual Property, Michele C. Bosch; Adriana L. Burgy*





**Note:**

- IP Audit is conducted internally and at the request of the owner of the IPR.
- IP Due Diligence is performed externally at the behest of a potential investor, purchaser, or business partner.

**To mitigate the risk of relying solely on the vendor's warranties and indemnities**

Businesses need the IP developed by others for their products/services and may acquire the IP or take up licences for that purpose. However, it is not advisable to conclude such transactions relying on the vendor's representations alone, as there could be liabilities or latent problems affecting the IP or the vendor's rights to the IP.

**To identify the real status of the asset & uncover any latent issues**

An IP asset may be encumbered or useless such that a purchaser may later discover that the asset cannot be used or that using it would infringe on the IPR of another person. Other IPRs may be vulnerable to cancellation or may have lapsed or the vendor may not have good title to license or assign.

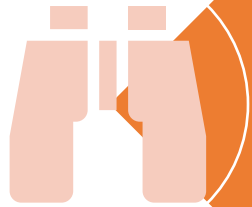


**To assess the critical success factors of the IP asset, including its strengths and weaknesses**

It is necessary to ensure that the IP asset aligns with the strategy of the investor's business. Hence, the real commercial/economic value of an IP asset to the business of a purchaser should be evaluated.

**To aid the investor's informed judgment in the course of the transaction**

The investor is placed in an advantageous position to significantly bargain down the acquisition costs or what warranties to seek, and ultimately whether to discontinue the acquisition transaction.



**I**DENTIFY products & services of the target company and the IP used in relation to same



**D**ETERMINE whether the identified asset has protection under the relevant legal regime



**A**SCERTAIN Vendor's ownership of rights and the validity of the IPRs

*Steps to an effective IP due diligence*

- Largely fact based - Identification of target company's products/services that are material or core to the transaction and the IP used in relation to such products.

This may include:

- Trademarks – registered or not
- Confidential information, trade secrets/Know-how
- Patents
- Industrial designs

Copyrights

Customer lists

Databases

Slogans

Brand hashtags

Domain names

- ❑ The focus of the second phase of the process is to determine whether the identified assets enjoy protection under relevant legal regime.
- ❑ Public searches at the registries will be necessary to confirm that Letters Patent and certificates of trademark registration have been issued and are subsisting in respect of any identified **patents, trade marks, designs, and domain names**.
- ❑ The assets which do not require formal registration for their protection such as **copyrights, trade secrets/know-how, customer lists, databases, best practice**, etc., should be documented for easy identification and valuation.
- ❑ They should also be included in the deeds of sale/purchase or license/assignment or in the global asset evaluation, as may be necessary.

## The IP Due Diligence Process: **Determining Legal Protection of Identified Assets**



Two things are material at the third stage of the due diligence process as follows:

▪ **Ownership:**

The vendor's acclaimed ownership of the relevant IP must be verified, in order to pass good title or a valid interest to the investor. In cases involving group or sister companies, ensure that the conveying company is the registered holder of the IPR.

2. **Validity:**

It is crucial to verify the validity of the vendor's IPR to ensure the investor would enjoy freedom to operate and be able to enforce the right against intrusions. Questions to consider in this respect include:

- Is the IP duly registered?
- Has it been renewed and subsisting?
- Is it a subject of pending opposition/litigation?
- Is it enforceable or vulnerable to being challenged?
- What is the duration of the right/scope of protection?
- What are its chances of success, if enforced or challenged?

**The IP Due Diligence Process:**  
**Ascertaining the ownership & validity of the assets**



	Yes	No	N / A
<b>PATENT</b>			
1. Have the list of all the inventions owned or used (whether or not it is patentable) been obtained?			
2. Obtain technical description of products and manufacturing processes			
3. Assess procedures to identify patentable inventions. Are procedures effective and applied?			
4. Have the copies of all patents (including those which have expired) been collected and checked?			
5. Have copies of all licences, assignments and other related documents been collected and checked?			



	Yes	No	N / A
<b>TRADE MARKS</b>			
1. Obtain details of all products, services, marketing, promotional material to check actual usage and map against coverage			
2. Have the details of the registered trade marks used been obtained?			
3. Have copies of both registered and unregistered trade marks been collected and checked?			
4. Have copies of all pending trade mark applications been collected and checked?			
5. In relation to all registered trade marks used, have the following details been obtained?			

		Yes	No	N / A
<b>INDUSTRIAL DESIGN</b>				
1.	Have the details of any registered industrial designs been obtained?			
2.	Have the details of any unregistered industrial design rights been obtained? If so, have the products been identified?			
3.	Have the details of the designer of the unregistered industrial design rights together with the date of its creation been obtained?			
4.	Have the importance details been obtained? For Instance			
4.1	Name of proprietor, appellant and designer			
4.2	Registered or application number			
4.3	Description of industrial design			
4.4	Nature of interest			

	Yes	No	N / A
<b>COPYRIGHT</b>			
1. Have the details of any copyright owned or used been obtained?			
2. Check ownership ; chain of title ; consultancy			
3. Computer software – claim to ownership if owned.			
4. Moral rights issues.			
5. For licensed in copyright (particularly computer software) check licences, (shrink wrap, click-wrap or otherwise).			

	Yes	No	N / A
<b>TRADE SECRETS</b>			
1.	Does the Company have an intellectual Asset policy. If so, obtain a copy and check records of any trade secrets.		
2.	Check employment records; exit interviews; recruitment/induction interviews.		
3.	Security / IT policies.		
4.	Know how or Technical Assistance licences.		
5.	Has all the technology been developed exclusively by the employees of the company? If not, the source of technology should be stated, together with the right of company to use and its relevant documentation.		

		Yes	No	N / A
<b>INFRINGEMENT OF THIRD PARTY RIGHTS</b>				
1.	Are there any infringements of third party IP rights owned or used by the company?			
2.	Have the details of the alleged infringements been obtained?			
3.	Is the company aware of any third party IP rights that may be relevant to any present or future operation of the company?			

	Yes	No	N / A
MISCELLANEOUS IP			
1. Any anti-trust/monopoly or competition issues arising. Check licences for anti-competitive provisions.			
2. Other IP – plant varieties; SPCs; chip protection.			
3. IP Insurance.			



## The IP Due Diligence Process: Where to look

- **Company official records** – Review certificate contracts, licences, etc. and interview relevant
- **Trade mark, design and patent registers**
- **Review the products**
- **Online/internet searches**
- **Trade Mark Journals**



## The IP Due Diligence Process: The Report

The IP due diligence report is a concise but detailed summary and analysis of the findings made in the course of the investigation, which culminates in the solicitor's advice and recommendations to the investor.

A typical report should restate the client's instruction in order to determine the expected outcomes of the exercise. A summary of the facts should be provided including the information collected and observations made on the collected information.

The solicitor's advice and recommendations should then follow the solicitor's clear and concise analysis of the information vis-à-vis the law and the relevant IPRs.



## The IP Due Diligence Process: The Report

### Note:

- Information obtained during searches should be communicated per time rather than at the end of the exercise. This will enable the investor make real-time decisions.
- It may help to agree with the investor in advance as to the extent of the exercise so that what is expected of the solicitor and the costs of the exercise may be known.



## Conclusion/Recommendation

The need for cogent information and detail in the IP due diligence process cannot be over-emphasized. It may make or mar the decision-making of the investor. However, it may be humanly impossible to guarantee the absolute accuracy of the data collected, as for instance, to say that there is no prior art in relation to a patent under investigation.

All that may be done in the circumstance is to diligently search and confirm what is known, while leaving a margin for human error.

A periodic post-acquisition due diligence exercise may also be explored for a strategic management of the IP assets of the investor.



Vigilance

# Thank you.



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