**ACQUIRING INTELLECTUAL PROPERTY: GUIDING YOUR CLIENT**

When an attorney is approached by a client with a request for advice on the conclusion of a transaction, a number of issues must be considered. Various areas of law, for example, tax, company or competition rules, may be relevant. However, for current purposes, only the determination of the validity and scope of protection of the intellectual property that may form part of the transaction will be looked at. It is, in general, advisable to involve an intellectual property attorney in such an endeavour, in particular when the transaction is of a complex nature (in given instances, even intellectual property practitioners in other countries would have to be consulted). This would seem to follow from the consideration that the quality of the input of the practitioner will, naturally, be enhanced by an understanding of the transaction and the type of business involved. This will require insight into the way in which the intellectual property will be used by the client. For instance, the approach to be followed in the case of a business that manufactures clothing aimed at teenagers will differ greatly from that pertaining to a business that sells security systems. For one, in the latter instance, the emphasis will be more on relevant patents (providing protection for at most 20 years) and in the other case on trademarks (in principle, of indefinite duration).

It is customary, in these circumstances, to refer to an “audit” being done, in conjunction with due diligence. What activities are represented by these terms? The first/audit phase really involves “stocktaking” or identifying the intellectual property to be acquired. Transactions in which practitioners are called upon to advise may differ in size and involve a single or a number of forms of intellectual property. Moreover, the practitioner may have limited human resources or (most often) time within which to consider the matter, leaving budgetary constraints aside! The focus should thus be on the prioritisation of tasks, that is, attention should be afforded to the intellectual property that is perceived to add the most value or that forms the ratio of the transaction. The gathering of information is an essential step in the auditing process. Ideally, the client should be in a position to provide details of all the intellectual property being acquired. This, however, seldom occurs. It is thus necessary to conduct a search of the relevant registries.

The conducting of due diligence of intellectual property “created” by way of registration is, so to speak, relatively easy to accomplish (it is obviously necessary to ensure that all renewal fees for any registered rights are paid, etc., and that no problem would be encountered in this regard). Taking a trade mark as an example, it would be possible to establish, from a search of the Register of Trade Marks, whether other marks were cited against that of the seller during the examination process and also, of course, whether any formal opposition was filed, even if not pursued through to a hearing. There can be a number of reasons why a competitor would choose to launch an attack at a later (even post-registration) stage. Competing claims must thus be closely scrutinised in a situation where a transaction, in effect, hinges on the acquisition of rights relating to a specific trade mark. The process can, for logistical reasons, not be followed in detail with regard to all relevant marks. The seller must also be called on to provide details of litigation pertaining to the mark. Often, as in the case of “old” marks, such information needs only relate to a given, say five-year, period. It is, in particular, any challenges to the seller’s title to the mark that would warrant closer inspection. Notice should also be taken of any co-existence agreements or geographical limitations.

In the case of both “new” and established trade marks, a client’s interests would be furthered by conducting a search of potential common law rights holders, and telephone and trade directories may be valuable sources of information. The same obviously applies to searches of the Internet, in particular as far as the registration of domain names is concerned. It is also important, as mentioned, to consult the registries of companies and close corporations. It goes without saying that the more “uncluttered” a market is, the more one’s client will benefit from the transaction. Ostensible combatants may live in harmony, though, for various peculiar historical reasons. It does occur, for instance, that parties operate in different parts of the country and, upon discovering each other, come to an understanding that the one will not take steps against the other. The client must be advised that in these or other circumstances, he/she may not be able to enforce his/her statutory rights even though they give him/her, *prima facie*, the ability to prevent the unauthorised use of the mark throughout the country.

The activities of competitors should also be borne in mind in the sense that the potential for the expansion of a client’s business should be assessed. This aspect could be of importance, first, in that a registration may exist that would bar the client from expanding the range of products that he/she can offer: in particular, the use of the mark to be obtained in relation to goods that would be a line extension of the seller’s goods. It could, second, find application in a geographical sense. It is, for instance, not uncommon for South African businesses to discover that their marks are being used unlawfully in surrounding countries. Information regarding the position on relevant registries in neighbouring states could consequently be important. The same would apply where the obvious expansion area for a client is an overseas country.

It must be borne in mind, with regard to a patent, that it is only the inventor that has the right to apply for a patent (section 27(1) of the Patents Act 57 of 1978). There is no deeming provision similar to, for instance, section 21(1)(b) of the Copyright Act 98 of 1978 that “automatically” transfers copyright in a work created by an employer, in given circumstances, to the employer. The right to apply for a patent may be assigned to another person though, who then steps into the inventor’s shoes. Thus, the applicant for a patent may be the inventor, another person or a company, etc. This aspect can become complicated, as there may be more than one inventor in respect of a single invention and there may be joint owners of a patent application or patent. In the situation where an inventor is employed to create a new product or invent something new, it is usually a specified term of employment and inventions are to be assigned to the employer. The existence of such a clause is, of course, not a given. It is thus quite important to investigate the position regarding an invention and the person(s) who invented the particular matter that is registered as a patent. Assignment documentation should be carefully scrutinised.

It is also necessary for the practitioner to determine what American jurists refer to as the “freedom to operate” that his/her client will have after the completion of the transaction. This applies, in particular, to potential patent infringement actions. The perceived scope of a licence that may be in place, in particular, must be clarified. Providing an opinion to one’s client may involve, as noted, time and budget constraints and these may determine the extent of the investigation in this regard. The emphasis must accordingly be placed on the essence of the technology being obtained, as not all relevant patents can be examined in detail. Often, the seller may, of course, be aware of a particular problematic patent and may have obtained an opinion before, but it remains the duty of the practitioner to draw the risk involved to the client’s attention. Related to the freedom-to-operate aspect is the existence of any prior art that may destroy the “newness” of a patent. The scope of review undertaken here must be specified by the client, but the practitioner must provide guidance. It goes without saying that it may be of value in given instances to obtain independent verification of any claim to registered rights. In the case of a patent that is of central importance to a transaction, scrutiny of the position in other countries becomes crucial. This is on account of the fact that the South African patent system does not involve the substantive examination of a claimed invention – it is registered as a matter of course. The citation of prior art in an overseas country can thus be important in evaluating the true value of a patent “registration”.

Copyrighted works can also feature, for instance, in the purchase of a software company. Here, it is important to establish the circumstances surrounding the creation of the software. For example, was the program developed in-house or created by an entity unrelated to the company? This may be a vital aspect, as the author of a work is the first owner of the copyright subsisting in the work (section 21(1)(a) of the Copyright Act). In the case of a software program, the author is the person who exercised control over the making of the program (section 1(1) of the Copyright Act). In the absence of an agreement to the contrary, the outside agency will thus be the owner of the copyright subsisting in the program and not the entity that commissioned the creation of the program. If need be, an appropriate assignment agreement would have to be drafted for swift signature (bar acrimony) between the parties. Copyright law may also find application in the case of know-how, should it be reduced to writing. Confidentiality and restraint of trade clauses should, ideally, be in place.

It is to be noted, lastly, that it is standard practice that a seller should provide guarantees of ownership and title. Practitioners should ensure that an indemnification is obtained from the seller as to any possible liability of the purchaser for the use of the intellectual property.

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