

INTELLECTUAL PROPERTY DUE DILIGENCE CHECK LIST

This checklist provides an overview of due diligence issues in intellectual property. The checklist is not exhaustive and may not address issues that may arise in a particular fact situation. Before conducting intellectual property due diligence one needs a basic understanding of the four principal areas of protection of intellectual property: patents, trademarks, copyrights and trade secrets.

1. Patents

Patents provide protection for inventions and discoveries. An invention is a new, non-obvious, useful process, machine, manufacture or composition of matter. Patents exist by government grant, are national in territory, and are limited in duration. Key areas of review in conducting due diligence of patents include:

1.1 All patents, pending patent applications, and provisional applications, including filing date, issue date, status, country of issuance or application, and claims coverage.

1.2 File wrappers for patent applications (in the USA) and patents with references, including assignments from inventors to the Company.

1.3 Files for any office actions, interferences, continuations, terminal disclaimers or other patent office proceedings.

1.4 Patent searches and opinion letters concerning non-infringement, patentability and enforceability.

1.5 Maintenance fee records and evidence of patent marking for any issued patents, including any evidence of entitlements to pay small entity reduced fees.

1.6 Engineers' and scientists' notebooks and invention disclosure schedules kept by the Company. Identify and interview key research and development employees and contractors.

1.7 Files concerning any patent assignments, which should include the right to sue for past infringements, and any patent licenses, which should not exceed the term of the patent.

1.8 Files concerning any threatened or pending patent infringement litigation whether brought by the Company against another or by another against the Company.

2. Trademarks

Trademarks are symbols that identify the source of products or services. Trademarks may include words, logos, designs, slogans, product configuration, packaging, colours, sounds and scents. In some countries, such as the United States and Canada, trademarks are created by use and may be registered; in other countries, registration effectively creates trademark rights. The key areas of review in conducting due diligence for trademarks include:

2.1 All trademark and service mark registrations and applications, including dates of first use, filing dates, issue dates, classes of goods and services (in the USA), status, countries of issuance or application, and assignments.

2.2 All trade names and company names, brand names and unregistered trademarks and service marks. Catalogues and websites are a good source of this information.

2.3 File wrappers (in the USA) for trademark applications and registrations.

2.4 Files for any office actions, oppositions, cancellations or other trademark office proceedings.

2.5 Searches and opinion letters concerning clearance and registrability.

2.6 Files relating to any Internet domain names (addresses registered by the Company with any registrar, including renewal

dates and any threatened or pending disputes under domain name dispute policies.

2.7 Documentation concerning recordation of trademarks with Customs.

2.8 Files concerning any trademark assignments, which should include an assignment of goodwill and, if the mark is the subject of an intent-to-use application, an assignment of the business to which the mark pertains.

2.9 Files concerning any trademark licenses, which should include quality control language.

2.10 Files concerning any threatened or pending opposition or cancellation proceedings in the Trademark Office, or any federal or state trademark infringement, dilution, false advertising or unfair competition proceedings involving either the Company's trademarks or the marks of another.

3. Copyrights

Copyrights protect original works of authorship reflecting some degree of creativity which are fixed in a tangible medium of expression. In addition to books, movies, music and artwork, business materials such as software, advertising and product packaging also may be protected by copyright. Copyright protection exists upon fixation of the work, whether or not the work is published or registered. Key areas of review in conducting due diligence of copyrights include:

3.1 All registered copyrights and applications for copyright registration, including titles of works, authors, owners, publication dates, filing dates, issue dates, countries of registration or application.

3.2 All material unregistered copyrights, including for software.

3.3 Documentation concerning chain of title, including assignments to the Company of works created by contract programmers and chain of title opinion letters.

3.4 Copyright clearance opinion letters evaluating possible infringement.

3.5 Documentation concerning recordation of copyright registrations with Customs.

3.6 Files concerning review of software usage for unlicensed copies of copyrighted software.

3.7 Files concerning copyright assignments, licenses and security interests. In some jurisdictions security interests in copyrights must be perfected in the Copyright Office and must pertain to a registered copyright.

3.8 Licenses for use of website "content" such text, graphics, photographs, music and video.

3.9 Files concerning any threatened or pending copyright infringement litigation.

4. Trade Secrets

Trade secrets are non-public business information which has been the subject of reasonable efforts to maintain confidentiality, and which derives economic value from not being generally known. Trade secrets may include technology, manufacturing know-how, formulas, customer lists, supplier lists, financial information and virtually any other kind of business information. Software code and pending patent applications also may be protected as trade secrets. There is no public registration system for trade secrets. Key areas of review in conducting due diligence for trade secrets

include:

4.1 All inventions that are not the subject of issued patents, but may be the subject of patent applications or may have invention, discovery or reduction to practice dates.

4.2 All software developed by or for the Company for which confidentiality has been maintained.

4.3 All other material business information which has been kept secret and from which the Company derives economic benefit by keeping it secret; identify and interview key employees familiar with the Company's trade secrets.

4.4 Documents reflecting procedures to protect the Company's trade secrets, such as the Company's written confidentiality policies and non-disclosure agreements, and the Company's implementation of its policies, such as by marking materials as confidential, password-protecting software, restricting access to sensitive parts of its manufacturing plants, and the like.

4.5 Documents relating to hiring and exit interviews of technology and other sensitive personnel.

4.6 Confidential disclosure agreements (non-disclosure agreements).

4.7 Documents reflecting any Company policies addressing protection of the trade secrets of others which may be received by the Company through authorized disclosure, inadvertent receipt or competitive intelligence.

4.8 Documents relating to policies and procedures for receiving unsolicited submissions.

4.9 Files concerning any trade secret misappropriation litigation, which may involve departed employees, relations with suppliers and customers, or competitive intelligence.

5. Licenses

Intellectual property may be used by others subject to appropriate authorization. In conducting due diligence of high technology clients, key components of the Company's business, such as software or proprietary databases, may belong to others and be licensed to the Company. Similarly, the Company may generate revenues from licensing its technology to others. Key areas of review in conducting due diligence for licensing include:

5.1 All intellectual property licenses where the Company is licensee, including names of parties, dates of expiration, rights granted and any pertinent restrictions such as territory or transferability.

5.2 All intellectual property licenses where the Company is licensor, including names of parties, dates of expiration, rights granted and any pertinent restrictions.

5.3 Evidence of registered user trademark filings in countries where required.

5.4 Documents concerning proper record keeping, accounting and royalty payments required by license agreements.

6. Assignments

Increasingly we find that intellectual property critical to the Company has been developed by individuals who were not employees at the time, such as in the case of a Company that uses contract programmers rather than employees to develop software. Additionally, high technology clients may acquire components of systems or technology from independent third parties. Thus, it is crucial that technology transfers and other assignments be duly documented and recorded, where appropriate. Key areas for review in conducting due diligence concerning intellectual property

assignments include:

6.1 Documents evidencing assignments of intellectual property to or from the Company, including grants of security interests.

6.2 Documents evidencing recordation of assignments of patents and patent applications, trademark registrations and applications, and copyrights, including grants of security interests.

6.3 Documents evidencing releases of any security interests in intellectual property, and evidencing recordation of such releases.

7. Other Agreements

As companies acquire, transfer, license and use a range of intellectual property, other types of agreements addressing Intellectual property issues may be of concern *668 in a particular setting. Some industries have unique types of intellectual property agreements and issues to watch for in particular; while other issues are more universal. The Internet has spawned a new array of agreements that are part intellectual property, part Internet business in nature. As an overview, some of the other types of agreements one may consider in intellectual property due diligence include:

7.1 Agreements with those persons and entities who may create, work with or have access to the Company's intellectual property (including employees and independent contractors) evidencing assignment to the Company of rights in intellectual property and confidentiality of trade secrets.

7.2 Software development agreements, including website development.

7.3 Website related agreements, such as website hosting, application service provider (ASP), exchange, linking and framing, banner advertising and click-through revenue sharing agreements.

7.4 Database, processing and outsourcing services agreements.

7.5 Technology, know-how, and research and development agreements.

7.6 Partnership, joint venture, strategic alliance and teaming agreements.

7.7 Government grants and related agreements.

7.8 Source code escrow agreements.

7.9 Non-compete and non-solicitation agreements.

8. Litigation and Enforcement

Protection of intellectual property rights through various forms of adversarial proceedings may be paramount to maintaining the value of a Company's intellectual property. Different types of proceedings may arise depending on the type of intellectual property involved. Some key areas to consider in litigation and enforcement of intellectual property rights include:

8.1 Files for any threatened or pending litigation alleging that the Company is infringing or diluting the intellectual property rights of another.

8.2 Files concerning any domain name disputes under either the ICANN arbitration procedures or the Anti Cyber Squatting Consumer Protection Act (in the USA).

8.3 Files concerning litigation over contractual disputes and breach of intellectual property warranties.

8.4 Files concerning any potential future litigation or objections that the Company has identified through clearance practices or through industry review.

8.5 Files for any threatened or pending litigation brought by the Company asserting that a third party is or was infringing or diluting the intellectual property rights of the Company.

8.6 Enforcement files, including cease and desist letters sent or received and agreements of any kind restricting use of any intellectual property by the Company or by any third party.

8.7 Files concerning administrative proceedings such as trademark opposition and cancellation proceedings or customs proceedings.

8.8 Insurance policies and related files addressing coverage issues concerning intellectual property claims and damages caused by intellectual property.

9. Valuation of Intellectual Property

In the course of sales or financing transactions, a formal valuation of the Company's intellectual property holdings may have been prepared. Short of a formal valuation, other information suggestive of relative value may be available from a variety of sources.

9.1 Any documents concerning valuation of any intellectual property holdings of the Company, including websites.

9.2 Any documents concerning valuation of competitive intellectual property owned by others.

9.3 Any information about the royalty revenues or other income stream generated by the Company's or competitive intellectual property.

10. Privacy

The treatment of personally-identifiable information that is collected from the public by websites, credit card companies, credit reporting agencies, telemarketers and others, has been a growing concern to consumers, businesses and politicians. Intellectual property due diligence of high technology companies should include information about any collection and use of personally-identifiable data. If the Company collects, uses or shares lists with personal data for marketing or other purposes, due diligence should include the following questions:

10.1 What types of personal data are collected from the public or are used by the Company?

10.2 Does the personal data concern adults and/or children; U.S. residents and/or foreign residents?

10.3 What disclosures are made to the public about the collection or use of their personal data?

10.4 What types of uses are made of the personal data?

10.5 Does the Company or its sources of personal data give the public an opt-out alternative when collecting personal information?

10.6 Does the Company subscribe to one of the industry self-regulation certification programs, such as Privacy Preferences Project (P3P) or TRUSTe?