

## ACQUIRING IP IN ASIA: DUE DILIGENCE IS ESSENTIAL

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Left: Alan Adcock, Deputy Director  
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Intellectual Property

Intellectual property acquisitions are becoming commonplace in Asia. While these agricultural and manufacturing economies may not have been prolific creators of IP, they have become key territories for global or regional IP deals with the transition to knowledge-based economies. Acquiring companies are now frequently Asian, looking to fast-track the design/branding process and acquire IP as going concerns, complete with marketable products.

Buyers in an IP acquisition in Asia and the West want to know the same information about the IP they are acquiring, but the process must be conducted differently in Asia. In Western deals, buyers typically can rely on the statements and warranties accompanying the acquisition agreements for the IP, but in Asia, buyers must be more proactive in performing their own due diligence. Buyers should therefore obtain local advice to ensure that there are no hidden difficulties accompanying their newly acquired IP.

### Why IP due diligence?

According to the Chinese, “sharpening the axe before chopping the tree is not a waste of time.” In the context of intellectual property, due diligence is critical. This should include not only a review of the status of registered rights, but also an analysis of previous transactions and other relevant agreements which may affect what can be done with the IP.

When acquiring IP, due diligence should confirm several things. First, a buyer wants to identify the property to a degree sufficient to confirm it fits his or her needs. For instance, do the patents cover what you hope them to achieve? Are the trademarks in the appropriate classes for the goods or services you will use them with? Full searches are ideal, but prioritization is crucial if time or costs are limited.

Second, a buyer wants to confirm that the IP is owned by the seller so that the seller can legally assign the property to the buyer. This is mainly confirmed by review of all licenses, agreements, and encumbrances relating to the IP.

Third, a buyer wants confirmation that the IP does not infringe any third party intellectual property rights. Due diligence must consider all disputes and litigation related to the IP. Contested IP

may come at a lower price, but a buyer risks being precluded from using that IP or even being sued for its use of contested IP upon acquisition. This needs to be addressed long before the signing of any acquisition agreement, and it is unwise to rely solely on indemnifications.

Additionally, acquiring the IP alone may not be sufficient. Regulatory permits, product certifications, or accreditations should flow with the IP for food, beverage, pharmaceutical, nutritional, and personal care items. There may also be valuable know-how, associated materials, or technical knowledge related to the IP for use in manufacturing products or dealing with customers. This needs to be identified, verified, and included in the acquisition.

### How much is enough?

The extent of due diligence depends on the amount of disclosure and the depth of investigation the buyer thinks

necessary and the seller thinks reasonable. The exercise culminates in the production of two very important documents. First is the Due Diligence report, prepared by the buyer’s counsel. It assesses legal risks and liabilities so that a decision can be made about whether to proceed. Second is the Disclosure Letter, which the seller’s counsel prepares. It sets out the IP, the defects in the IP, and other risks. The Disclosure Letter often serves to limit the Warranties set out in the Sale and Purchase Agreement so that the buyer will be precluded (save for fraudulent misrepresentation) from taking action against the seller after the deal is completed.

The checklist below includes issues that must be considered in a thorough due diligence process. ❖

### DUE DILIGENCE CHECKLIST (ACQUISITION OF INTELLECTUAL PROPERTY AND OTHER PROPERTY)

1. **Trademark.** All trademarks should be listed and their status noted, including jurisdiction, precise wording, images and nonalphabetic marks used, renewal dates, the registered proprietor, pending applications, copies of registration certificates, and lapsed or expired marks in the last five years.
2. **Copyright.** All copyrighted works should be listed, noting the date and place of creation, identity and contact details of the author(s)/creator(s) and of the current owner, and the mode of copyright acquisition.
3. **Design.** All designs should be listed, noting jurisdiction, design and image thereof, Locarno class(es), application and registration numbers, annuity/extension dates, the registered proprietor, and all expired or invalidated designs in the past ten years.
4. **Patent.** All patents and patent applications should be listed, noting jurisdiction, application and registration numbers, status, and the registered proprietor. Any patent ability opinions, patent plans, the patent portfolio, descriptions of “design around” efforts, infringement assessments, freedom to operate opinions, clearance opinions, or validity assessments held by the seller should also be included.
5. **Know-how, associated materials, technical knowledge, etc.**
6. **Other intellectual property rights**
  - 6.1. Domain names
  - 6.2. Common law unregistered and unfair competition rights and common law goodwill
  - 6.3. Unregistered trademarks, logos, and/or business names, including those in foreign languages
  - 6.4. Brand descriptors or brand extensions or any other tag lines, sub-brands, and slogans
7. **Third party rights in the IP** should be listed, noting all third parties with any interest in the IP, rights held, the source of those rights, and the relevant jurisdiction.
8. **Litigation and disputes** should be listed, noting parties, the nature of the dispute, jurisdiction, cause(s) of action, status, etc. for any actual, pending, or threatened litigation, administrative action, or settlements.
9. **Regulatory approvals** should be listed for all countries where obtained or applied for, along with a copy of such approval, for food, beverage, pharmaceutical, nutritional, and personal care items.
10. **Other Issues**
  - 10.1. Security interests in intellectual property
  - 10.2. Product formulations for branded products
  - 10.3. Manufacturing information, including current and past manufacturers, copies of current manufacturing contracts, and current and past label and packaging printers, print plates, and mould ownership details
  - 10.4. Customers, shops, outlets, or wholesalers involved with the IP
  - 10.5. Territory, if the acquisition is not global
  - 10.6. Transitional arrangements are important in cases where Seller participation is necessary for Buyer’s smooth takeover of the existing business.