

# **BUYING AND SELLING INTELLECTUAL PROPERTY**

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## **I. INTRODUCTION**

What does the term "Information Age" really mean? In one sense, it illustrates a changing definition of property. Assets no longer have to be tangible; some of the most powerful companies in the world rest their very existence on abstract information. In order to capitalize on that value, however, the property has to be transferable.

More and more, lawyers will be called upon to assist the transfer of intellectual property. As I will try to point out, however, the sale and purchase of intellectual property is unlike any other type of transaction. All lawyers now realize that intellectual property is an asset and can be bought and sold. Unfortunately, many then make an invalid assumption that the normal rules of asset purchase and sale can apply. I hope that by the end of this paper, you will see that while there are many common factors, the differences can be very significant.

I will first look at what some of these differences are, and how they are commonly dealt with in intellectual property rights ("IPR") sales. Following this will be examples of common terms in sale agreements. The balance of the presentation will deal with issues peculiar to the major forms of intellectual property protection, including patent, copyright and trade mark.

This paper is aimed at the non-specialist. Those who practice intellectual property on a full-time basis will think of many other points that should be reviewed in the sale context. For reasons of time and space, I can only mention some of the items. As well, many factors will be obvious to even the non-specialist, and I will ignore those; instead, I will discuss the things that are easily overlooked.

This presentation will also tend to look at purchasing issues more than selling issues. My own point of view is that there are more risks for the purchaser than the vendor in intellectual property transactions. The vendor is usually only concerned about getting the money. The purchaser has to acquire full rights to an abstract piece of property, make sure the vendor is not continuing to use it, and ensure that there are not any competing rights, to name only a few of the problems. I will not ignore the seller's concerns, but they will not be my primary focus.

Finally, while IP can be different, the normal rules of purchase and sale still apply more often than not. Intellectual property rights are the property of the Information Age, but you should always remember they are still property.

## **II. STARTING POINTS**

Intellectual property rights are plainly assets. They have value, and they can be bought or sold. There are some differences, however, when comparing IPR to other types of assets. If you are a solicitor that does not regularly deal with IPR, you will usually try to find precedents or earlier files that give you some guidance. Often, these precedents deal with hard assets; a reliance on these can be dangerous for a few reasons.

First, intellectual property rights do not have to be sold. Indeed, a purchase and sale of IPR is somewhat uncommon, because licenses are often used. The hard asset mindset becomes dangerous when you look at the deal only as a sale or potential sale. If your client asks you to transfer rights, you must not lose sight of the fact that a sale/assignment is only one of the

options. It would be like someone coming to you looking for office space. In that case, you would not only discuss the possibility of buying a building, but you would probably also consider leasing. Licensing IPR can be analogous to leasing, except that more than one person can license the same property.

Secondly, you will never get the same level of comfort when buying IPR as you will when purchasing hard assets. In a hard asset sale, the mere fact that the vendor has possession of the goods gives you some comfort. With abstract property like IPR, it is much easier to pass on (fraudulently or otherwise) a non-existent title. The problem is exacerbated because of the abstract nature of the property; there is no registry you can search to be 100% sure the vendor can properly sell the asset.

Further, think about what happens when there is a sale of know-how. To say that you are buying the asset is based on "old" property law and is not truly accurate. In fact you are buying a copy of the asset. The vendor will informally retain most of the information and there is nothing that can be done about it (short of extricating the brains of all people who have pertinent knowledge). In order to prevent unwanted competition in the future, you have to include special contractual terms and restrictions that are unheard of in hard asset transactions.

This can be a problem from the vendor's side as well, especially when the purchase price is not paid up-front. Normal rules of enforcement upon breach do not apply to IPR deals, particularly when dealing with unregistered rights like trade secrets. Suppose that you sell a trade secret to a company, with payment of the purchase price made over time. Further suppose that the purchaser defaults under your contract soon after signing, and before you have received much of anything in the way of consideration. Yes, you likely could sue the purchaser for the breach, but we all know the issues and difficulties that arise from litigation. The other remedy that you would have available in a hard asset situation, namely seizure/repossession of the asset, is often irrelevant here. You likely know the information anyway (or at least could reconstruct it fairly easily), and you do not have to seize it to get it back. On the other hand, even if you do seize the physical manifestations of the technology (documents, computer disks, and so on), there is no guarantee that you have vacuumed it all up, and there is therefore the risk that the purchaser will still take advantage of the information in some way notwithstanding the breach. Obviously, these problems must be thought through before you deal with even fundamental items such as purchase price.

Finally, an understanding of the underlying technology is crucial when dealing with IPR. A lawyer does not have to know how an apartment building is constructed in order to document its sale. Things are more complicated with IPR. This does not necessarily mean that you need a PhD. in genetics to transfer biotechnology. It does mean that if you are dealing with, say, computer software, you should understand the importance of source code versus object code, or the consequences of re-coding the program in a different language, or how a compiler works, to name just a few things.

To gain this understanding, you will have to rely on your client's expertise and knowledge to a much greater extent than when buying tangible property. Your client needs to make the final call as to whether the technology being purchased is worth it. More importantly, your client has to recognize that you are relying on them for this. We all have a natural ego need to be seen as knowing everything, and it can be difficult to admit to a client that you do not understand something. Resist this. My experience is that clients are only too willing to be the expert and explain the details to you. Not only does this protect you from getting in over your head, it

also helps create a "partner" relationship between you and your client.

Naturally, you can only go so far in relying on your client's knowledge. After all, you are being paid to give advice and guidance. Unless you provide some value for that money, clients will hardly be beating a path to your door. In addition, you have to make some assessment of your client's sophistication in intellectual property matters. Does he/she realize that government intellectual property offices do not guarantee underlying rights? Is there an understanding of the risks if the deal falls apart before closing? This is some of the advice you are hired to provide.

### **III. THE AGREEMENT**

#### **I. Form of Assignment**

Enough warnings and lectures. We will now go into the actual mechanics of a deal, and the important features of the sale agreement. You will note that I will not really talk much about the form of assignment, or sale clause, itself. That part of the agreement is really very simple, and is much like that used for any other type of asset. An IPR agreement differs in the level of warranties, representations and searches that are needed, for the reasons discussed above.

One of your first questions will be whether this is a share or asset purchase. Normal considerations apply here. Tax consequences will undoubtedly have a bearing. As well, there is always the risk of undisclosed liabilities when you purchase shares rather than assets. The risks and benefits of each course of action should be familiar to anyone with experience in ordinary commercial transactions.

The differences between assets or shares in IPR sales are more a matter of detail than fundamentals. For instance, if you are hiving off one segment of a corporate group that owns IPR, you should pay attention to the chance of rights being terminated. This could apply in two contexts. First, the rights might be dependent on an agreement with a third party that prevents their transfer or "spin-off". Secondly, it might just be an internal circumstance where additional rights that are needed to exercise the sold property remain within the vendor's control. In both situations, your due diligence investigations should recognize this and provide for a solution.

Finally, the entire agreement, not just the assignment, should be scrutinized by any lenders that may be participating in the deal. Most of the major banks are now becoming more aware of intellectual property issues, and are prepared to lend money on that type of security. They still have specific needs, though, and your sale agreement should take these into effect. It is tough enough to reach a deal between the vendor and purchaser. If you have to substantially rewrite it simply because your lender is not prepared to accede, you may put the entire deal in jeopardy. The lenders should be apprised of the broad strokes of the deal at a very early stage, and certainly before anything is signed.

#### **2. Description of Property**

This is fundamental to the operation of the agreement, and yet more often than not it is put in without much thought. I am not sure why this is. Perhaps there is a communication gap between technical people and lawyers in terms of explaining what is covered. Sometimes the vendor and purchaser have been talking about the technology for so long that they just assume they are both on the same page.

Even non-specialists know this is not always the case. Particularly where the technology is an unregistered trade secret, there is ample room for small or substantial differences in

interpretation between the parties. The doctrine of legal mistake can apply where hard assets are involved (e.g. the purchaser thought it was buying Lot A, not Lot B), but the principle is much harder to apply to vague concepts.

This is where an understanding of the technology involved can come in handy. For example, if your client is buying software, is it clearly spelled out that the source code is included? If not, the property received may be useless because it cannot be easily modified. Do not rely on assumptions that property is included. If it is not specifically mentioned, add it.

The problem is less acute for registered intellectual property rights such as patents, since you can simply refer to the patent number itself. Remember, however, that pure patent sales are rare. More often improvements or changes have been made, and the purchaser wants access to this know-how in addition to the patent. All of these other enhancements should be discussed and added if applicable.

In my own agreements, I prefer to use a term called "Technology" which is defined very broadly so as to include all patents, copyrights, trade marks, trade secrets and other forms that the property takes. Typically, the definition also includes improvements or changes to the technology (discussed below). Unless otherwise specified, all of the warranties, conditions and terms of the agreement will therefore apply to the total bundle of rights, not just to a single patent, or a single copyright.

A typical definition clause reads as follows. Note that the term "Technology" builds on other defined terms:

"Technology means any technology owned by or licensed to the Company, its Subsidiaries or Affiliates related to the Process [Products or Business] including, without limitation, all Intellectual Property Rights and Technical Information."

"Technical Information means all know-how and related technical knowledge of the Company, its Subsidiaries or Affiliates relating to the Process [Products or Business] including, without limitation:

1. all trade secrets and other proprietary know-how, public information, non-proprietary know-how and invention disclosures;
2. any information of a scientific, technical or business nature regardless of its form;
3. all documented research, developmental, demonstration or engineering work;
4. all information that can be or is used to define a design or process or procure, produce, support or operate material and equipment;
5. methods of production; and
6. all other drawings, blueprints, patterns, plans, flow charts, equipment, parts lists, software and procedures, specifications, formulas, designs, technical data, descriptions, related instructions, manuals, records and procedures."

"Intellectual Property Rights means all Patents, Trade Marks, Copyrights, Industrial Designs, and other intellectual property rights whether registered or not, owned by or licensed to the Company, its Subsidiaries or Affiliates relating to the Process [Products or Business]."

The definitions for Patents, Trade Marks, et al should similarly be broadly drawn.

### 3. Confirmation of Ownership

Land has the Land Titles Office. Intellectual property has...., well, it does not really have anything that can warrant ownership or title. If a lawyer does not often practice in the IP area, he/she will often fall into a conservative shell and requires guarantees of title. This makes it very difficult for the deal to proceed. If that is the mindset that you bring in, you again are doing a disservice to your client.

Wait a minute, you say. What about the Patent Office, and the Trade Marks Office, and the Copyright Office? All of these provide for registration, so why not just search there? The short answer is that you do have to perform those searches, but you still have to understand the limitations.

None of the various IP offices in Canada serve as guarantors of title and validity. Trade marks are a good example. You can register a trade mark and get the official looking Certificate with a fancy red seal, but there are several ways to nullify that registration. For example, prior unregistered users have up to 5 years to come forward and prove that they used the mark first. If this is done, the registered trade mark can be expunged from the record.

Patents are another example. I have heard figures estimating that anywhere from 70% to 90% of registered patents are nullified once they are challenged in court. The patent system is not intended or designed to guarantee that you have obtained a patent that complies in all respects with The Patent Act. All the registration means is that you have traversed the required hoops and hurdles, and at least one examiner believes that you have a patentable invention or process. It is always open to a court to find that your patent is not novel, or that it conflicts with an existing registration, or that it otherwise does not comply with the Act.

This is one of the biggest misapprehensions that the general public (and some lawyers) have about the intellectual property registries. Make sure that your client does not have unreasonable expectations about the quality of the technology or its protection simply because it is registered. Just as importantly, ensure that you understand the nature of the registries, and what their limitations are.

#### i. Due Diligence

A natural tendency is to be far too conservative and suggest there is no way to purchase the technology because it cannot be guaranteed. The answer lies in what is called due diligence. A more straightforward description is "investigation". You as a lawyer are called upon to gather facts and give an opinion concerning the property being purchased. In order to protect you, the investigation must be as thorough as possible.

As its name implies, the detail required is only what is "due" given the circumstances. You will not be held to the same standard for the purchase of a \$1,000.00 software package as for a patent worth millions of dollars. As well, you are free to constrain or expand the degree of scrutiny in consultation with your client. The key point is to make sure your client understands the limitations of your search. Documenting this understanding in writing is a very good idea.

Due diligence will not require you to become an expert in the field. For major projects, you may have to employ engineers, scientists, or other specialists who can opine on the strengths of the technology and the business. Again, involve your client in this to the greatest extent possible. Hiring an expert that your client does not respect will do nothing for your reputation.

There is a checklist for the common due diligence items attached to this paper, but I will mention a few of the more important tasks here. Treat this discussion and the checklist as a starting point only. The only common feature of IPR sale transactions is that they are all different, and I have yet to use a checklist in one without changes. Above all, think about what results you are getting. Does a result imply something else that should be checked out?

*Find out everything about business/product being acquired.*

The starting point is usually the asset, whether it is a business that primarily uses IPR, or the rights themselves. This is done first for two reasons. First, you plainly need to gather information and this is the logical place to start. Just as important, though, is that you need to find out what questions to ask. It can be extremely daunting at the outset of a due diligence search, especially when you do not have an underlying knowledge of the technology. Only by looking at the product or business itself can you decide what further investigation needs to be done, and who to ask for information.

By the way, my experience has been that you cannot do a proper due diligence investigation from your office. You should attend at the vendor's business, and if possible, set up an office there so that you can properly examine the materials. Not only does this save time in requesting and receiving the inevitable "additional documents" that you will need, it also helps you get a first-hand look at how the business operates. Often, you can tell more from how the staff operates and treats confidential information than you can from looking at all of the contracts in the world. If you see such information being treated in a cavalier or careless manner, this should at least trigger more detailed investigation on the point.

*Searches*

I mentioned earlier that searches at the intellectual property registry offices are no guarantee of ownership. Nonetheless, these queries still have to be done to at least ensure the basic steps have been complied with. This is another case where agents can be necessary. For example, a patent agent may have to be retained in order to give an opinion on proper registration.

You also must consider how far afield your searches should go. It can become intimidating and expensive to start searching outside of Canada and the United States because there are no international registries - each country must be searched more or less individually (the European Economic Community is a bit of an exception). As well, the different rules in each country make it necessary to obtain local agents in many cases.

*Computers*

This is more important when you are acquiring an entire business instead of one single product. Even where computer software is not involved, you will want access to computer records. You can determine a lot about a business simply by the software that is being used. You can also find files that will need to be earmarked for destruction if and when the sale goes through

*Find and examine contracts dealing with IP*

By this time, you should have an understanding of the technology in general, and you will be starting to gear your efforts toward determining potential problems. Some of the first items to obtain and examine are copies of all contracts that involve the intellectual property. A few of the things you will be looking for include:

Are the contracts in good standing?

Are any of the contracts terminable on a change of control? "Control" is sometimes defined differently, so be sure that a simple transfer does not trigger this.

Is there any lack of assignability in the agreements? While the general rule for contracts is that they are assignable without consent, the rule is different for licences. A licence is considered to be personal, and cannot be assigned without the licensor's consent.

Are there any options to purchase buried in the contracts?

### *Litigation*

You will normally conduct searches for writs, judgments and pending actions, but other investigations could point out potential problems with the rights themselves. Much of intellectual property litigation is conducted in Federal Court, so that Registry should be searched. As well, the Patent and Trade Mark Offices may have records of disputes or oppositions.

### *Foreign Rights*

If there are significant foreign rights, it would be a good idea to talk to a lawyer in the jurisdiction involved. As an example, many Latin American states require that inventions be worked in that country for patent rights to be renewed. Some jurisdictions do not allow holding companies to own trade marks. There is no way that you can know these rules without help.

There are many other things to be done, as the checklist points out, but at the end of the day (or month) you should have a good idea of what the situation is, and what significant problem areas remain.

## **4. Warranties**

The representations and warranties are one of the most important, and the most scrutinized, portions of an IPR sale agreement. Their importance is obvious for reasons that have already been discussed. For instance, proving ownership, or preventing the vendor from continuing to use the technology, often comes down to no more than a contractual representation.

On the other hand, a purchaser's lawyer will sometimes demand guarantees through the warranties and representations. If you are in that position, remember to be reasonable. While you should do everything possible to protect your client's interests, you must be careful not to go beyond what is practically possible and therefore jeopardize what is, after all, the client's deal.

The vendor will often want to restrict the warranties to matters within its knowledge. While this is part of the negotiating phase, recognize that there are different shades of "best of knowledge", each of which has subtle but important effects on the quality of warranty given. For example, consider the following examples which vary in their protection:

To the Vendor's knowledge, information and belief, there are no...

To the best of the Vendor's knowledge, information and belief, after due inquiry, there are no...

To the best of the Vendor's knowledge, information and belief, after due inquiry, but without searching outside its own records, there are no...

No matter what form of representation you end up with, it should not be seen as a substitute

for due diligence (unless you and your client specifically make that decision). A representation is, after all, only a contractual remedy, and is subject to defences, judgment-proof parties, and the like.

I will talk about the major representations and warranties that are used in IPR deals, but like other transactions, there will be many other conditions included in the final agreement. As in any legal area, proper research and preparation is needed to create a robust contract.

## **ii. Title**

The paragraph that often causes the most negotiation (or argument) is based on title. As was discussed earlier, it is impossible for a purchaser to guarantee that it is receiving perfect title, with no encumbrances or potential claims. The purchaser's lawyer must recognize this, but on the other hand, one should not let the vendor escape without any warranty as to title at all.

This can be handled in many different ways. It is rare for a well-informed vendor to warrant that the intellectual property rights are valid; there are simply too many uncertainties in litigation. This is not fatal to the deal from a purchaser's perspective, but the buyer will want something —perhaps some indemnities in terms of infringement litigation that may arise in the future.

Here is a common, if brief, form of representation:

"The Vendor is the sole owner of all right, title and interest in the Technology free of any security interest, charge or encumbrance."

For comparison's sake, here is one that I would not agree to if I were representing the vendor:

The Vendor is the sole owner of the Technology, and there are no claims, potential or existing, by any third party against the Technology."

The most objectionable part is that there is no way of knowing if third parties have a claim. As I have mentioned, it is impossible to foresee this. A more subtle problem is in the looseness of the phrase "sole owner". Does this include encumbrances?

## **iii. Right to Sell**

At the very least, the vendor should be warranting that it has the right to sell the asset, and that there are no encumbrances. This could be done as follows:

"The Vendor has the sole right to assign the Technology and it has not assigned the assets to any other person, nor are there any agreements, transactions or arrangements of any kind that would restrict the assignment of the Technology."

If the ownership clause mentioned earlier has not been included, you might also want to add further provisions about the lack of encumbrances.

## **iv. Delivery**

The next warranty or representation you will want is that the vendor has and will deliver all of the materials, documents, computer disks and other items that make up the technology. This again is illustrative of the unique nature of IPR. There are few other assets that can be sold in their entirety to a purchaser while still theoretically enabling the vendor to hold on to everything. Without this warranty, it is tantamount to selling a store, and letting the vendor

retain an identical copy to continue in business across the street!

"The Vendor warrants that all documents, computer records, disks and other materials of any nature of kind containing the Technology or any portion thereof have been [will be] turned over to the Purchaser, and that the Vendor will not retain the Technology, or any portion thereof, in any form whatsoever after the closing of the within transaction except as specifically permitted hereunder. For the purposes of this Agreement, the term "documents" includes all information fixed in any tangible medium of expression in whatever form or format, and copies thereof.

It is very difficult to police whether all materials have been turned over. I dare say computer files that should technically be deleted are invariably left on the vendor's hard drives . This is not the main concern, however. For most purposes, you simply want a contractual right to go against the vendor if they should try to sell or benefit themselves from the property that is now the purchaser's.

#### **v. Sale of Goods**

There is some controversy over whether the Sale of Goods Act applies to sales of technology. Instead of spending countless hours researching the point (and probably coming up with inconclusive results) you might want to simply build the Sale of Goods Act implied warranties directly into the agreement. The major ones should be familiar: that the vendor has the right to sell, that the purchaser will have and enjoy quiet possession, that the technology is or is not reasonably fit or suitable for a particular purpose, and so on. Again, be careful of inserting these without thought. A clause that warrants quiet possession can conflict with the risk of infringement claims brought by third parties.

#### **vi. Indemnities**

The issue of indemnities is closely related to warranties and representations. In most cases, there will be a blanket indemnity for breach or misrepresentation with respect to any warranty. This is one of the areas where the risks can be more significant to the vendor. For instance, the purchaser may ask for an indemnity against patent infringement actions. A significant danger arises if the indemnity forces the vendor into bringing patent infringement actions (or to pay for any such actions brought by the purchaser). One fact should dissuade a vendor from even hinting at such an indemnity: the average cost of a patent infringement suit in the United States is estimated to be \$500,000.00 to \$700,000.00. As a vendor, there is no way that you want to be irrevocably committed to those amounts, and you should not even entertain the possibility of indemnifying them without a clear escape hatch.

### **5. International Differences**

I have already mentioned the fact that due diligence investigations need to recognize international issues. This is no less important when dealing with the sale of the technology itself. In today's economy, it is rare that you will find a sale that deals exclusively with Canadian rights and territory. Indeed, even matters in other provinces might require specific legal advice from that jurisdiction.

Do not assume that the United States is the same as us. While the general principles are similar, there are enough hidden differences to cause you to run for your insurer's phone number. For example, it is common to structure Canadian licences so that they go beyond the expiry of underlying patents. This recognizes that the brand name and market awareness

are worth something over and above the IPR themselves. Such an arrangement may not work under United States law; the licence can be deemed to expire upon the termination of the patent. The moral is to enlist local counsel whenever international issues arise.

## **6. Encumbrances**

As mentioned previously, a purchaser will want a warranty that there are no existing or threatened encumbrances against the IPR. This should be seen as a fallback position only, since due diligence searches can ferret out most of these beforehand. One of the common culprits is a licence that has already been granted to another person. There are rules at the IP registries that permit a purchaser to take free of unregistered licences, so some sort of search should be high on your list.

Authorship claims can approach the level of an encumbrance. You need to determine who actually developed the technology. You may have to interview those persons to determine whether they have retained any rights. Consider also obtaining releases where appropriate.

The author's identity is significant because of the way intellectual property law has developed. While intellectual property rights have been treated as "property" for the most part, there is still an element of mystique around the creative process. The original author can sell the products of his/her mind fairly freely but the common law and statutes still permit the author, in certain cases, to "reach through" a sale agreement to restrict or prevent particular activities. Moral rights (discussed under the copyright rules below) are an example of this. In effect, these rights act as an encumbrance on the rights of the owner to fully and completely deal with the property that it holds.

It is also appropriate to discuss the matter of compulsory licenses in this context. As you know, the monopolies that are granted by patent, copyright and the like represent a balancing of interests. It is felt that without these monopolies, inventors and creative persons will not be inclined to produce works that benefit others. On the other hand, there is a public interest in furthering the free flow of information to benefit society as a whole. To alleviate the monopoly's stifling effect, compulsory licenses have been used in some instances.

As its name implies, a compulsory license involves someone stepping in (usually a government or quasi-government authority) and forcing the owner to licence the technology on specific terms. For instance, if the Commissioner of Patents is satisfied that a patented invention is not being worked on a commercial scale three years after the issuance of the patent, a licence may be imposed. Ordinarily the licence will be non-exclusive, but the power exists to make it an exclusive licence.

This is significant for sales of technology because the purchaser will want to know when there is a risk of a compulsory licence being granted. In some cases, the purchaser has no intention of working the technology. It may be trying to protect other technology that it already owns by "burying" the new developments. You should be alerting your client to the chances of a compulsory licence being imposed.

## **7. Notification to Registries**

Because the IP offices serve as notice registries, it is important to amend filings as quickly as possible. It is not unheard of for vendors to sell technology more than once, and only those who have properly registered their purchase may prevail. Accordingly, your post-closing checklist on behalf of the purchaser should ensure that this step is not missed.

## **8. Improvements**

This is more of a licensing issue, but it can arise in pure sales. The main thing to remember is that intellectual property rights are rarely static. Even after patent registration, the inventors and others will be working to improve the device or process. Thus, the description of property sold should not just refer to the patent or copyright itself, but also to improvements, trade secrets and general know-how emanating from the invention.

In the last century, there was some dispute over whether a sale or assignment of IPR could include future improvements. It has been argued that a clause assigning improvements is contrary to public policy because it would discourage inventions. This view was rejected in *Printing and Numerical Registering v. Sampson*, so there appears to be no legal reason to exclude such a clause. Of course, there is little incentive for a vendor to be working on improvements at all if it has already assigned the benefits to another party.

## **9. Term of Warranties**

The issues here are quite similar to those existing in ordinary asset sales. As a rule, the purchaser will want warranties to extend indefinitely, or at least as far into the future as possible. The vendor will prefer a very short term of warranty, so that at some point it can consider itself free of future liabilities.

Given the rapid rate of change inherent in intellectual property rights, there is probably some basis for arguing that the warranty period should be fairly brief. This is a bit of a problem with statutory intellectual property protections in general. While computer programs can conceivably be protected for well over a century (the life of the author plus 50 years), nobody realistically expects that there will be any value in today's software that far down the road.

On the other hand, the uncertainty in an IPR deal puts more risk onto a purchaser. The argument therefore goes that warranties should be beefed up. While I agree that this puts more importance on the scope of warranties, I do not necessarily accept the term should be longer. The end result is that these academic discussions do not much matter; the question will be a matter of negotiation among the parties.

## **10. Restrictive Covenants**

I mentioned earlier that a sale of IPR allows one to "sell the store" but retain an identical copy. After scrutinizing countless contractual details, it can be easy to lose sight of the purchaser's main goal: it wants to take over the vendor's business or property without having to compete with it later. Unfortunately, the restriction on the vendor's future business may be overlooked in the final agreement. This can easily be rectified with a specific clause, but it does have to be kept in mind.

The restriction should also be suitably broad, not just related to operating a business. For instance, your purchaser client would probably not take kindly to the vendor applying for new patents for similar or competing devices/processes, or assisting others in doing so.

## **11. Specific Differences**

Until now, the discussion has centered on matters that apply to all kinds of intellectual property rights. As other presentations make clear, though, there are differences between these rights. These variances need to be accounted for when drafting the sale agreement.

### **i. Patent**

Canadian patents now require an annual payment, called a maintenance fee. As part of your search process, you will want to ensure that these fees are up to date, or else you risk the chance of losing the patent altogether.

The next point has been mentioned before but is important enough to repeat. Do not assume that a patent sale is just a sale of the patent. While the registration of a patent may be the foundation upon which the technology is based, there will usually be enhancements (called know-how or show-how) that may not be reflected in the patent. Ensure that the description of the property sold is broad enough to cover these improvements.

As part of this, you may also want to find out if there are any pending improvement applications. If so, have them included in the description of the technology.

### **ii. Copyright**

Copyright is one of the protections that does not require registration at all - it exists upon publication. For this reason, parties tend to ignore it a bit. I suggest your review should not be so perfunctory for a few reasons.

First, there are some rights granted in The Copyright Act that are outside mere copyright. In particular, be aware of moral rights. These rights deal with the protection of an author's reputation. Apart from normal copyright, the author retains two moral rights: the right to integrity of the work, and the right of association/disassociation.

The first right protects the author's reputation. It would clearly be possible to modify a computer program so severely that it became "a piece of garbage". The Copyright Act grants a special status to authors to prevent such drastic modifications, even though the copyrights themselves may have been dealt away.

I am not aware of any Canadian cases that deal with the degree of change needed to trigger this moral right, at least for computer programs. The most famous Canadian case on general moral rights is *Snow v. Eaton Centre*, where a relatively minor modification was made. If this case is representative, the author clearly holds the upper hand.

The second moral right also involves reputation. The author can require his/her name to be associated with the work, or can require it to be not used therewith. This latter aspect might be especially important if you are dealing with a famous author and would like to trade on his/her reputation. For instance, some video game developers have a strong following with customers, and you probably would want to take advantage of this popularity. Therefore, you should be sure that you can use the name in advertising and such.

Moral rights rest with the author, and cannot be assigned or transferred. They can, however, be waived. This brings up a couple of points to watch out for. First, if you are purchasing copyright from someone who is not the author, determine the status of the moral rights. It may be that the vendor, or its predecessors in title, never bothered to obtain a waiver. Even though you will be purchasing the copyright, the author may thus still have some control over how that work is presented or modified. The second point, of course, is that if you are dealing directly with the author, obtain the waiver. There is no reason that you as a purchaser will want to leave those rights with the author (unless he/she is giving you a take it or leave it proposition).

The next thing to look out for is the remaining term of the copyright. This is actually a problem with any rights that cannot be renewed (i.e. almost everything except trade mark) because you need to have enough term left to make the purchase worthwhile. It seems to be extra important for copyright, however, since not many people bother to check the rules for length of copyright.

You still should know what length of time you are dealing with, and again it is important to know who the author is. This is because the term can depend on the date of the author's death (usually copyright exists thereafter for 50 years). Also, some jurisdictions allow compulsory licenses to be granted during the latter years of the term. The most obvious thing to mention here, but one that is often overlooked, is not to assume that the vendor is the author. Only by determining who the author is can you calculate the term.

### **iii. Computer Software**

Computer software is a common copyright situation these days, but I want to deal with it separately. This paper will not go into all the nuances of computer software sales because it would quickly double its length. I will make a special plea, however, to be familiar with the industry. The culture is totally different from other businesses, and in many cases the differences fly in the face of normal business practices.

Some of this is driven by the players involved. For many years, the large hardware companies such as IBM treated their standard form contracts as sacred. Even large buyers like General Motors could not get individual clauses changed, so there was little hope for smaller companies. A lawyer who wanted to do his/her client the most good with the least cost would recognize this, and not bother to negotiate contract details. Instead, the negotiations might concentrate on flexible options like payment terms.

A more current example of this need to understand the industry is in the product that software developers can supply. There is not one software developer, from Microsoft down to Joe's Software, that can afford to warrant its product as defect-free. Today's software is much too complex to eliminate all bugs. As the purchaser's lawyer, you have to recognize this and not demand guarantees of perfection. This does not mean, however, that you cannot build in maintenance or upgrade protection for your client.

The other major factor to be aware of in computer software situations is the difference between source code and object code. Computer programs are typically written in what is called a high-level language. These languages, such as C+, Pascal, or BASIC, use English-like commands to speed the development cycle. The result of this writing process is called the source code. In order to allow faster and more efficient execution, the source code is then compiled. Compiling translates the source code into something the computer can understand, called object code. The important thing to remember is that object code is virtually impossible to take apart and modify. Although it is theoretically possible to reverse engineer the object code, it is beyond the technical and financial capabilities of most users. The source code is needed to accomplish the modifications.

In other words, purchasing object code without the source code is tantamount to buying a car with the hood welded shut. You can still operate the vehicle, but if you ever want to repair or upgrade it, you are out of luck. As someone paid to avoid problems like this, you as a lawyer will have trouble arguing your client should have alerted you to the problem.

#### **iv. Trade Secrets**

Patents are the most famous class of intellectual property protection, but trade secrets are the unsung heroes. Many people are surprised at how many more trade secrets are bought and sold as compared to patents.

This arises for a few reasons. Patents have priced themselves out of the reach of many, and besides, a lot of parties like the idea of keeping ideas confidential (patents by their nature are disclosed to the world). Further, it is rare to see just a patent sold, or just a copyright. There are often improvements or know-how that has been developed concurrently or subsequent to the registration itself. Even though this is not protected by statute, it is still very valuable and something that should obviously be part of the sale.

Trade secret lesson number one is to scrutinize your own internal controls and keep them as secure as possible. As lawyers, we pride ourselves on our ability to keep things confidential, and for the most part, this pride is justified. Do not forget, however, that your client is used to working within an even higher secrecy environment, and may not be impressed with your mere verbal assurances that things will be kept under wraps.

Respect this attitude, and make sure your office and systems evidence the same spirit. Do not leave papers or other materials lying around so that others can glimpse them. Instill within your staff and colleagues the view that absolutely nothing is to be disclosed or even discussed unless necessary to the client's affairs. Success or failure in the world of intellectual property can turn on any piece of information, no matter how small, and there is no room for mistakes on your part. Even if your activities are overkill, your client will respect the lengths you go to protect its information.

It is also worth checking whether the proper steps were taken when the vendor and purchaser started talking. The vendor normally does not release any information to the purchaser, even for negotiating purposes, until a non-disclosure agreement is signed. By doing this, the seller is protected in the event the negotiations break down. As the vendor's lawyer, you should review that agreement to make sure it is adequate. If for some reason one was never signed, and it is not too late, have the parties sign a contract before further information is disclosed.

Although there is not a federal Trade Secrets Act, remember that some jurisdictions do have registration or compliance legislation dealing with confidential information. Ensure that this is followed.

#### **v. Trade Marks**

Trade marks are unique in that they can be renewed. Unlike a patent or copyright, it is theoretically possible to maintain a trade mark forever.

To accomplish this, a few things have to be done. First, you need ongoing renewal. The term of a trade mark is 15 years, renewable for further terms of like amount. Your searches should disclose whether there are any problems here.

Secondly, remember that a trade mark derives its rights from use, not registration. Not only do you need to ensure that registration is up to date, you have to uncover and investigate whether the foundation is stable. For most purposes, this means that the mark has been used continuously, and continues to be used. As well, are there indications of infringing uses that, if allowed to go on, might harm your trade mark's exclusivity? All of these are part of the due diligence, and are very important to keep the rights intact.

On occasion, you will not be dealing with a registered trade mark. Unregistered, or common law, trade marks are also valid and can ground actions for passing off, among others. The searches required for common law marks are much more detailed and time consuming. There are national companies that can conduct these investigations for you.

#### **IV. CONCLUSION**

The flexibility (some would say chaos) of intellectual property transactions is what interests many lawyers, myself included. Whereas hard asset sales follow a fairly strictly defined line, you have much more freedom with intellectual property to develop unique answers. These transactions reward creative and clever solutions, and it will be rare that you will run into two deals that are much the same.

I have stressed over and over that a conservative mindset is not necessarily an advantage in this arena, and can be a liability. Needless to say, you cannot throw away altogether the need to be cautious. However, you will have to loosen up a bit, and you should find that the freedom is refreshing.

*This article is for general information only and relates only to Saskatchewan law. Specific situations may require different or additional information. Do not act on any information contained in this article without consulting your advisors regarding your specific circumstances. As well, some of the articles are of historical interest only because legislation or case law may have changed.*