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BUSINESS NOTES
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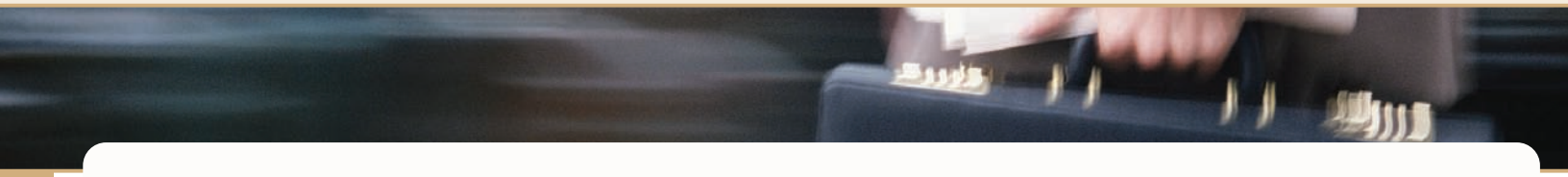

INTELLECTUAL PROPERTY DUE DILIGENCE IN A COMMUNITY PROPERTY STATE

The purpose of due diligence in the acquisition or licensing of intellectual property assets (namely patents and copyrights) is to give a buyer an opportunity to investigate and evaluate the asset concerned in some detail. More particularly, due diligence involving patents and copyrights can present ownership issues if the author/inventor is or was married and resides in a community property state. Whatever level of diligence is required for the particular transaction, the buyer should consider inquiring as to the current and past marital status of the inventor/author of the intellectual property if the inventor/author is either the seller; a direct owner of the seller; or in some cases, even a past owner of the intellectual property.

Federal law vests ownership of copyrights and patents to the author/inventor of the intellectual property; however, in a community property state, a non-contributing spouse can be given an ownership interest in what would otherwise be owned by the author/inventor. This intersection of state family law with federal intellectual property law creates a situation that could bring a non-contributing spouse into the mix; sometimes without the author/inventor being aware of the issue.

In the case of patents, federal case law states that the ownership of a patent vests initially with the inventor or inventors. On the other hand, in community property states like Louisiana, Texas, and California, a patent that is developed during the marriage is presumed to be co-owned by both spouses even though the other spouse is not a named inventor. In fact, it is not uncommon for courts to vest partial ownership rights in patents and copyrights to the non-contributing spouse in a binding marital property settlement. Thus far, courts have upheld these types of settlements by holding that federal law does not preempt state law when vesting ownership in the non-contributing spouse.

If the author/inventor of the intellectual property is married at the time of the transaction, it would be advisable to have the author/inventor's spouse sign as a witness or as party to the assignment or license. Generally, one spouse has the power to transfer community personal property provided the transfer does not defraud the other spouse; however, gaining the non-contributing spouse's consent would solidify the transaction. If the author/inventor has been divorced, the Buyer will need to determine if the intellectual property was created during the marriage

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so as to determine the non-contributing spouse's possible ownership interest.

In the case of a patent, for example, ownership by the non-inventing spouse could be determined by inquiring as to when the invention was conceived; when the patent was filed; and when the patent issued. If either of these events occurred during the marriage, the non-inventing spouse may have a valid claim to an ownership interest in the patent and further diligence will be required by the buyer. At the very least, any final divorce settlements should be reviewed to determine how the intellectual property was allocated between the two former spouses regardless of what state law controls. Unfortunately, it is common for attorneys to overlook the intellectual property assets when drafting a divorce settlement which may require further research into the controlling state law to determine if the non-contributing spouse has a valid ownership interest. Of course, it is always advisable to insert certain provisions into the contract wherein the seller represents and warrants that the seller is the sole owner of the intellectual property, but these provisions will not be effective against a third-party spouse's claims of ownership.

In summary, it is always recommended to retain an experienced intellectual property attorney when acquiring or licensing intellectual property assets to deal with the pitfalls that can be involved with these types of transactions.

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