Intellectual Property Issues
Facing Japanese Companies
Acquiring American Businesses

INTRODUCTION

In late-1987, Sony Corporation stunned many people in Japan, the United States, and the world with an announcement that Sony would enter the music business in a big way by purchasing CBS Records from CBS, Inc. Two years later Sony made another stunning announcement - that it would assume a leadership role in the film industry through an acquisition of Columbia Pictures. At about the same time, Hitachi, Ltd. startled many people with an announcement that it would dramatically improve its position in the computer arena by buying National Advanced Systems, a key player in the supercomputer market.

Each of these acquisitions evoked immense public interest not just because of the enormity of the transactions, but also due to the valuable intellectual property rights[1] which the Japanese company acquired from an American business.[2] For example, the library of recordings held by CBS Records, the stable of films held by Columbia Pictures, and the patents, copyrights, and technical know-how of National Advanced Systems comprised substantial value of the acquired American businesses. Indeed, one is hard pressed to imagine any business which does not derive substantial value from its intellectual property rights.[3] Clearly then, when acquiring a business, the purchaser must ensure a complete transfer of all the intellectual property rights needed to continue and expand the acquired business.

This article addresses some of the many intellectual property issues facing a Japanese company when purchasing an American business, and how to attend to such issues.

PREPARING SCHEDULES

Once the initial decision has been made to acquire an American business, the purchaser should determine the precise scope of intellectual property rights held by the American business. Thus, as soon as possible, all intellectual property rights should be scheduled. Typically, the seller will provide a schedule of all identified intellectual property rights. This schedule should

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1 The term “intellectual property” does not have a single, well-defined meaning. It has been defined by various authors as “products of the mind,” “intangible property,” and “industrial property.” As used in this article, the phrase “intellectual property” refers to the following key areas of the law: copyrights, moral rights of authors, mask works, patents, registrable marks or names (trademarks, service marks, certification marks, and the like), confidential information (trade secrets and know-how of all kinds), and rights of publicity and privacy.

2 By “American business,” it is meant an independent American corporation, a wholly owned U.S. subsidiary of a U.S. or non-U.S. corporation, or a division or other business unit of an American corporation.

3 Financial institutions may be exceptions. Yet, although financial institutions generally derive primary value from financial intangibles, they also typically have substantial assets in the good will inherent in trademarks, and customer lists and similar information which are trade secrets to the business.

include all patents, copyrights, mask works, trademarks and other intellectual property assets, both American and international, owned by the American business.

THE LORAL/NATIONAL SEMICONDUCTOR PROBLEM

As an example of the importance of adequately scheduling intellectual property assets, consider the case of Loral and National Semiconductor. Loral sued more than thirty Japanese and Korean corporations and their U.S. subsidiaries for infringement of two patents on charge coupled devices (CCDs) originally owned by Fairchild. Loral claimed ownership of the patents through an agreement with a Schlumberger subsidiary (Weston) which had acquired some of the assets of Fairchild, and the two patents were specifically listed in an exhibit to that agreement. After Loral filed suit, National Semiconductor sued Loral and Schlumberger claiming ownership of the same two patents. According to the complaint, National Semiconductor purchased from Schlumberger all of the issued and outstanding capital stock of Fairchild and, with that purchase, also succeeded to all the patents and other intellectual property assets of Fairchild except for certain specified patents and other intellectual property assets specifically excluded in an attached exhibit. The National Semiconductor/Schlumberger agreement did *not* have a schedule setting forth all the intellectual property *included* in the transfer, only of the intellectual property *excluded* from the transfer. Thus, the issue now becomes, at least in part, whether at the time of the agreement Schlumberger had title to and intended to transfer ownership of the two patents to National Semiconductor. At least the intent issue would be clear had the agreement had a schedule setting forth all patents which the parties understood to be transferred pursuant to the agreement. Now the courts will have to decide the issue.

SEARCH FOR INTELLECTUAL PROPERTY

The Japanese company acquiring the American business should also perform its own independent search for registered intellectual property. For example, computerized searches for patents and registered copyrights, trademarks, and mask works, should be performed. This search may reveal, for example, whether the seller has incorrectly identified intellectual property rights as its own, when these assets are actually owned by others. Particular attention should be paid to the case where the American business under consideration is a wholly or partially owned subsidiary of another company, since intellectual property rights used by the American business may be and often are actually owned by a related company. Similar care should be taken with respect to small businesses which are being acquired. It is all too common that the rights to intellectual property central to the viability of a small business are in fact owned not by the business, but rather by an individual founder/inventor. In these circumstances, the sales agreement should obviously include an assignment from the actual owner of the intellectual property.

SCHEDULE OF AGREEMENTS, PARTICULARLY LICENSES

Another important schedule to obtain from the seller is a schedule of agreements. All important agreements should be included here, such as licenses by the American business of others' intellectual property rights, licenses by the American business of its own intellectual property rights, settlements of judicial proceedings, joint development agreements, consulting agreements, employment agreements for at least key employees, and nondisclosure agreements with third parties. The Japanese company should see to it that intellectual property counsel reviews all of these agreements to certify that the American business has retained the necessary rights for running and expanding its business. Special attention should be given toward whether licenses are exclusive or non-exclusive. The most important agreements should be isolated and also given special consideration.

TRANSFERABILITY OF CRITICAL LICENSES

Particular attention should be given to the transferability of important licenses. For example, some licenses are not transferable, whereas other licenses may be transferable but require the consent of the licensor. Where the licenses are transferable, the purchase and sale agreement should include a specific transfer of the license rights. (Of course, you should make certain that by accepting the transfer of the license you are not assuming obligations which are commercially unacceptable, such as a non-compete commitment.) Where the transfer may only be made with the consent of the licensor, the seller should be required to obtain the licensor's consent *before the deal is consummated.* This will prevent the situation where the sale is completed, yet the Japanese company has not obtained a key intellectual property asset because a licensor has withheld its consent to the transfer of the license to the acquiring Japanese company. Where the licenses are not transferable, care must be taken to determine the impact that losing the license will have on the post-acquisition business.

For example, by now most have heard of the infamous Mr. Jerome H. Lemelson, a sole inventor who reportedly collected over $500 million in license fees in 1992 alone from licensing of his portfolio of more than 200 unexpired U.S. patents. Most of those license fees were collected from large, Japanese firms in the electronics, semiconductor, and automotive industries. Thus, a Japanese company considering acquiring a business in these fields, must determine if the seller has a Lemelson license. If not, then the acquisition may include a substantial potential liability with respect to the pre-acquisition activities of the seller. Moreover, Mr. Lemelson's "standard" license provides that if the licensee purchases an ongoing business or product line from another, the license does not extend to the acquired business or product line. Hence, even if the seller has a Lemelson license, if the business you are acquiring was purchased by the seller after entering into the Lemelson license, you might still be acquiring substantial potential liability with respect to the pre-acquisition activities of the seller. Mr. Lemelson's "standard" license further provides that if the licensee sells a subsidiary or product line to another, the license does not extend to the benefit of the acquirer. Accordingly, even the seller had a license which applied to the business which you are acquiring, you might need to purchase your own license for postacquisition activity or face a potential claim from Mr. Lemelson.

Another example which has received much press lately revolves around Intel Corporation. Many companies have patent cross-license agreements with Intel which allow those companies to make and sell microprocessors under the Intel patent portfolio. You might believe that if you acquire the microprocessor business from such an Intel licensee that there is no risk of liability for preacquisition or post-acquisition infringements of Intel microprocessor patents. But that is not necessarily the case, even assuming that the license was fully transferable. Intel claims that while its "standard" license allows the licensee to make and sell microprocessors, it does not authorize the purchaser to bundle those licensed microprocessors in a personal computer with external memory and a multi-tasking operating system. Intel says that the personal computer infringes its “combination” patents. If Intel was right, the personal computer manufacturer would be liable for infringement. And the microprocessor company may very well have a commitment to indemnify its customers from such an infringement claim. Thus, you might be acquiring preand post-acquisition patent infringement liability.

These are but two examples. There are innumerable others. But the point has been made. Exercise extreme caution when acquiring any business.

MARKET RESTRICTIONS IN CRITICAL LICENSES

Licenses should also be reviewed by intellectual property counsel to determine whether or not the agreements restrict marketing potential or ability. A license which appears to grant broad rights may nonetheless effectively restrict the Japanese company's post-acquisition activity to certain limited geographic or product markets. For example, it is not uncommon for a Japanese company to acquire an American company and then, over time, move some or all of the American company's manufacturing operations from the U.S. to Japan. But the American company may have a license which is limited to U.S. patents while the licensor also has Japanese patents. Alternatively, the license may simply be restricted to products made in the U.S. In either case, your plans to move manufacturing operations outside the U.S. may be stifled. Similarly, many licenses are limited to specific product models or types. A license which covers an existing product line, may not extend to the next generation of products, while your motivation for acquiring the company may nevertheless be the acquisition of the technology defined by the next generation of products. Thus, you might acquire the next generation technology, with no license to commercialize it.

LICENSES IN WHICH THE AMERICAN BUSINESS HAS GIVEN AWAY TOO MUCH

Where your decision to purchase another company's business is bottomed in the importance of the company's technology and intellectual property, care must be taken to properly and fully evaluate that technology and intellectual property. For example, the company may have licensed the technology to a third party manufacturer. That third party may not seem like a big player today. But the license may allow for the assignment to a third party, and the licensee may be in negotiations to be purchased by your fiercest competitor with the license being assigned to that competitor. With no ability to exclude your competitor from employing the technology, the value of the technology to you might be substantially diminished.

While less common, licenses occasionally have provisions stating that the license extends to patents acquired from third parties during the term of the license agreement, and even to patents for which the licensee acquires only the right to sublicense others during the term of the license. Licenses of this type must be carefully considered before the Japanese company transfers any patents to an acquired American company, and in making future decisions as to which company should own or have a right to license future technologies.

THE DUBIOUS VALUE OF CERTAIN INTELLECTUAL PROPERTY

Often a critical asset to be acquired from the American business is a patent or group of patents. These patents may be of doubtful validity. Other companies may have been accused of infringement and, in response, asserted that the patents are invalid or unenforceable for any number of reasons. The Japanese company should therefore demand to see and thoroughly review all correspondence relating to accusations of infringement, to prevent overstating of the value of, and overpaying for, the property to be acquired.

Similarly, it may be that there is technology which is critical to the future of the American business and a strong motivation for the acquisition. It may also be that the intent is to file a patent application on this technology after the acquisition is completed. If that is the case, then the seller should demonstrate to you and certify that the time for filing an application has not passed. The United States patent laws prohibit the granting of a patent if the application for patent is not filed prior to one year after the date that the invention was first sold or offered for sale in the U.S., or described in a printed publication anywhere in the world.

The same fundamental concerns exist with respect to most forms of intellectual property including copyrights. Publication of a copyrighted work without proper copyright notice prior to March 1, 1989, would normally have resulted in a forfeiture of all copyrights in the work and the donation of the work to the public domain.[4] You should therefore ascertain whether key copyrighted works, such as critical software, may have been published without proper copyright notice prior to March 1, 1989. In this regard, you should not be satisfied with proof that the latest version of the software was first published only after March 1, 1989, or that copyright notice has always been properly applied to the latest version of the software. If an earlier version was first published before March 1, 1989 without proper copyright notice, then that version may be in the public domain and the same is true for anything carried over therefrom into the latest version.

OWNERSHIP OF COPYRIGHTS

Other issues relate to the ownership of copyrighted subject matter. For example, very often the core of a business lies in its software or firmware which it either markets alone as a product, or which it markets as part of a larger product, such as control firmware or microcode for controlling the operation of a computer, printer, or other piece of electronics. You might assume that the company owns the software because it owns a copyright registration for the software. You might be sorely mistaken. Here is an example which demonstrates the problem.

Consider a company whose prime asset is a software program which we will call The Jewel. The Jewel was written for the company by a consulting firm pursuant to the terms of a written contract between the company and the consulting firm. That contract provided that the consulting firm would assign all its rights in The Jewel to the company. And, after the project was completed, that is precisely what happened. Accordingly, the company obtained a copyright registration for The Jewel claiming to be the owner by assignment from the consulting firm. Several years later, the company was to be sold to a third party for $10 million with the company's principal asset being The Jewel. During a due diligence investigation, attorneys for

[4] Omission of copyright notice on copies of a work distributed after the effective date of the Berne Convention Implementation Act of 1988 (March 1, 1989) does not result in forfeiture of copyright in the work. 17 U.S.C. section 405(a).

the acquiring company were told that the programmers hired by the consulting firm to write the code for The Jewel were "employees" of the firm. Had that been true, everything would have been fine because the consulting firm would be deemed the "author" of and, therefore, the owner of all copyrights in, The Jewel; and the consulting firm assigned those copyrights to the company. However, upon further investigation it was learned that the programmers were "independent contractors" within the meaning of the copyright laws because, among other things, the programmers did not receive typical employee benefits such as health, unemployment, and life insurance, and the consulting firm did not pay payroll and social security taxes or withhold income taxes. Therefore, the programmers were legally the "authors" of The Jewel and they owned the copyright in The Jewel, a copyright which they had not assigned to anyone. Thus, the consulting firm had no copyrights to assign to the company, and the company's copyright registration was invalid. The copyrights were still owned by the programmers. The deal was ultimately consummated, but only after the programmers assigned all their copyrights to the company in exchange for a certain sum of money.

POTENTIAL INTELLECTUAL PROPERTY LIABILITIES

Another important consideration at this point for the Japanese company purchasing the American business are the potential liabilities of the American business. Of course, lawsuits, actions and known claims should be disclosed and thoroughly considered. Particular to intellectual property rights are proceedings such as interferences and oppositions. An interference is a dispute between the owner of a pending patent application and the owner of either another pending application or an issued patent, over the right to claim the same invention. An opposition is a dispute over the right to register a trademark. The existence of these types of proceedings should be revealed to and carefully evaluated by the Japanese company, particularly if the patent or trademark being challenged is a valuable asset of the American business to be acquired.

Also, in the present climate of enormous damage awards for patent infringement, patent owners are dusting off and scrupulously studying their patent portfolios for patents which may be infringed. You should therefore not ignore any patent infringement claim which has been made against the company to be acquired, even if that claim was made several years earlier. A Japanese company may become the target of litigation after the acquisition, even though the patent holder never pursued the matter any further against the small American company being acquired. The patent holder may view the Japanese company as a rich or "deep pocket" defendant, and because many Japanese companies have avoided litigation in the United States by paying large licensing fees, the Japanese company may be seen as an easy target for a quick payoff.

PRESERVING DOCUMENTATION

A related concern lies in document destruction. Documents and even old product samples may be necessary in various legal proceedings, from both defensive and offensive perspectives. Also, the American business may have important documents which relate to various trade secrets. The Japanese company should therefore review the document destruction policies of the seller and prevent destruction of important documents. Because inadvertent destruction may eliminate the only information of many trade secrets, the purchaser should consider delaying any document destruction until an adequate review has been made.

ASSIGNMENTS AND RECORDATION OF INTELLECTUAL PROPERTY ASSETS

Like the transfer of many other property rights, proper transfer of intellectual property rights requires recordation.[5] An assignment of a patent or federally registered trademark is void as against any subsequent purchaser for valuable consideration, without notice of the prior assignment, unless it is recorded in the U.S. Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase. An assignment of a copyright is similarly void unless it is recorded in the U.S. Copyright Office within one month after its execution in the U.S. or within two months after its execution outside the U.S. or before the subsequent purchaser records his assignment. Consider the Loral/National Semiconductor case described above. The ownership issue would be much more readily determinable if either Loral or National Semiconductor had promptly and properly recorded an assignment of the subject patents.

In the United States the transfer of trademark registrations, copyright registrations and patents must be recorded individually. To make recordation easier, an omnibus assignment should be completed by the seller. Thus, only a single document need be signed by the seller to effect transfer of many rights. The purchaser should also consider obtaining several omnibus assignments for different classes of rights. For example, the seller may be assigning rights held by several different wholly owned subsidiaries to the purchaser. In this case each of the wholly owned subsidiaries should execute assignments of the corresponding intellectual property rights.

An omnibus assignment may nevertheless not be appropriate for patent applications. It may be better to have a separate assignment for each pending patent application. This is because an omnibus assignment of patent applications will be included in the file of each patent application. If any patent application issues, then the assignment of that particular application will be made public. If the assignment is part of an omnibus assignment, then information regarding the entire portfolio of patent applications listed in the omnibus assignment will become publicly accessible, even though the patent applications which are still pending will remain confidential.[6] That may be undesirable in certain situations, such as where knowledge of the existence of the application would provide a competitor with insight into your development activities. Ultimately, the benefits of using the omnibus assignment must be balanced against the higher cost and burden of executing many separate assignments. Compromise between an omnibus assignment and an assignment for each patent application is generally the most prudent approach.

TRANSITION PERIOD

A well-thought out transition program needs to be in place before the acquisition is concluded. Often, there are dates that must be met in order to preserve valuable intellectual

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[5] Security interests in intellectual property assets should also be recorded.

[6] The omnibus license specifying each of the “secret” patent applications may also be made available to the public in other ways, such as when it is recorded in the U.S. Copyright Office.

property rights. Responses to communications from the U.S. Patent and Trademark Office or Copyright Office may need to be filed in order to continue the prosecution of a patent, trademark or copyright application. Maintenance fees or renewal fees might need to be paid in order to maintain or renew a patent or trademark registration.[7] It is important that responsibility for attending to these matters during the days, weeks, and months immediately following the acquisition be clearly agreed upon before the acquisition is consummated. Too often important intellectual property rights are lost during this transition of responsibility from the seller to the buyer.

THE AMERICAN EMPLOYEES, GENERALLY

The purchasing Japanese company should consider that attitudes of the employees of the American business may change. For example, the employees of a small dynamic American business may be very devoted to the business and feel that they have a personal stake in the business. However, after acquisition by a large company, especially a large foreign company, their devotion to the business may wane. Hence a change of ownership of an American business to a much larger Japanese company may diminish motivation, and some employees may be less concerned about efficiency and waste. Although the Japanese purchaser cannot necessarily prevent this, the purchaser should be prepared for such circumstance.

THE KEY EMPLOYEE PROBLEM

Often it is the case that a handful of employees are critical to the successful continuation of the business after the acquisition. Thus, as with the identification of intellectual property rights by the seller, the seller should identify key employees from the perspective of creative as well as managerial duties. The Japanese company should ascertain whether these employees are under contract and also the specific terms of these contracts. Special consideration should be given to inventors who are at the ends of their careers. Such individuals commonly will retire early when faced with a change of management. The purchaser should consider offering incentives to such individuals to ensure that these individuals will remain in your employ at least through a transition period.

The acquiring Japanese company may desire to take further measures to ensure that the key employees remain with the company after the acquisition. The most effective way to do that is with an employment contract of fixed duration, such as one or two years. Such a contract is generally enforceable and, under appropriate circumstances, if the employee breaches his contract and leaves your employ, you may obtain an injunction prohibiting the employee from working for a competitor. Alternatively or additionally, you might consider including in the employment contract a provision under which the key employee agrees that if he terminates his employment prior to the termination of a fixed term, he will not compete with you. You might provide a

[7] The intellectual property schedule which is created for the acquisition should include the maintenance or renewal dates. When a maintenance or renewal date is reached, additional fees must be paid to and/or additional declarations (or affidavits) filed with the appropriate government agency to maintain the intellectual property right. For example, in the United States, to prevent early expiration of a patent, maintenance fees must be paid to the U.S. Patent and Trademark Office after about 4, 8 and 12 years. Similarly, a federal trademark registration will expire ten years from the date of registration unless a fee is paid to and a verified application for renewal is filed with the U.S. Patent and Trademark Office.

"signing bonus" as additional consideration for this covenant. However, you should be aware that in certain states, and California is one, a covenant not to compete by a mere employee is not enforceable.[8]

THE INVENTOR-EMPLOYEE PROBLEM

It is not uncommon for a Japanese corporation to acquire a relatively small American company whose principal asset is the technology which is either in development or for which development has recently been concluded. The United States allows for the filing of a patent application on an invention up to one year after the date that the invention was first sold or offered for sale in the U.S., or described in a printed publication anywhere in the world. It therefore may be that the American company to be acquired has not yet filed patent applications directed to the latest inventions of the company. It might be a mistake to acquire the American company before those applications are filed. That is because in the U.S. applications are filed in the name of the individual inventors. The inventors sign a declaration of inventorship, and an assignment of all rights in the application and invention to the company. If the application is not filed prior to the acquisition, problems may arise. For example, the inventors may leave the company and join a competitor. They may then refuse to sign the declaration and the assignment. While there are procedures for seeking to file the application without the signature of the inventor, these procedures are cumbersome and expensive, and will likely lead to questionable patent rights until the matter is finally determined by a court. In addition, without the application, which is often a more detailed description of the invention than anything which preceded the application, the former employee-inventor may claim to have "invented" the subject matter for his new employer after leaving your employ. In the U.S., the existence of patent application is kept secret until the patent issues. Thus, you may not learn of the employee's misdeeds until several years later when a patent issues in the name of the former employee and assigned to his new employer. In such circumstances, it may be difficult to find past or present employees who can and will testify about the facts which would establish that the former employee actually invented the subject matter while in the employ of the seller.

CLOSING THE DEAL - AMERICAN-STYLE DEAL MAKING

Relationships between corporations in the United States differ greatly from relationships between corporations in Japan. In particular, the process of the development of such relationships differs the greatest. In Japan, corporate relationships typically develop over long periods of time - on the order of many years. The relationship is built largely upon a few essential agreements, trust, and cooperation. In contrast, in the United States, relationships may develop much more quickly - often in days or weeks. American corporate relationships typically are founded upon detailed agreements which govern every important aspect of the relationship. These agreements may be reformed, terminated, ignored or abrogated as the market, financial positions, and other circumstances change. An American company does not typically trust its

[8] Covenants not to compete which are generally enforceable even in California include covenants by a substantial shareholder who sells all of his stock, or covenants by the owner of a business who sells the business.

business partner implicitly, and does not normally value the business relationship above all else, including the importance of short term profitability of the company.

In view of these differences, the Japanese company should not expect to rely upon an American sellers good will alone. Every important detail should be reduced to a written and enforceable agreement. The Japanese company must not assume unwritten agreements will be respected or enforceable, or that the meaning of ambiguous provisions articulated during negotiations will be recalled and applied later in the event of a dispute. In the United States, a rule of contract interpretation, known as the parol evidence rule, and a rule of contract enforcement, known as the statute of frauds, generally prevent a party from reading in or enforcing unwritten contract provisions. Therefore, when purchasing the American business, ensure that all intellectual property rights that have been promised are actually included in the sales agreements in clear and unequivocal terms. This can be done quite simply by attaching the schedules of intellectual property rights created in preparing for the acquisition as exhibits to the appropriate sales agreement.

SOME STANDARD PROVISIONS

The Japanese company should normally attempt to include in each acquisition agreement at least the following three basic in order to protect the value of the intellectual property rights the Japanese company will receive.

The first of these provisions is a warranty. The seller should be required to represent and warrant that the seller has sole right, title and interest in the schedule of intellectual property assets, and that to the best of its knowledge and belief, the seller is the sole and exclusive owner of all right, title and interest in the scheduled intellectual property, and that the seller has the power and authority to sell or otherwise transfer the scheduled intellectual property assets.

The second of these provisions is an indemnification. The seller should indemnify the Japanese company against and hold the Japanese company free and harmless from any cost, expense, liability or damage resulting from or arising out of any: (1) breach of the warranty or representation, or (2) claim or assertion by any third party that the products or activities of the American business infringes or otherwise violates any intellectual property right of any third party. The seller should bear the cost of rectification or defense as well.

The third of these provisions is a covenant by the seller and its key employees not to compete with the Japanese company's newly acquired American business.[9] Absent such a provision, the seller may be free to use its knowledge of the market to the Japanese company's disadvantage. While the sale agreement may contain trade secret provisions, much strategic information may not be trade secrets. Hence, a covenant not to compete should be made by the seller. A covenant not to compete should be narrow in scope because courts have refused to enforce overly broad covenants.

There are, of course, many other provisions which are important and should be included in the sales agreement. Moreover, often the warranty and indemnification provisions are the two

[9] As noted above, covenants by employees themselves may not be enforceable in some jurisdictions.

most hotly negotiated provisions in the agreement. Depending on the relative bargaining strengths, the buyer may have to be satisfied with warranty and indemnity provisions which do not provide the most comprehensive protections.

EXPORT OF INTELLECTUAL PROPERTY

During the time of the acquisition, representatives of the Japanese company will likely review technical information of the American business. After acquiring the American business, the Japanese company may desire to exploit opportunities for the products and technology of the American business that may not have been possible by the American business. For example, the Japanese company may desire to export the products of the American business to Japan and other countries. To reduce costs, the Japanese company may consolidate the manufacturing operations of the American business with those in Japan. To just explore the opportunities, the Japanese company will probably have to exchange technical information with the newly acquired American business. All of these activities fall within the rubric of U.S. export law.

Although all exports from the United States are subject to control by the U.S. government, most goods, including most high-tech products, are only lightly regulated. Technical data, technical documentation and computer software, also are only lightly regulated. Aside from exports of certain types of sensitive goods and technology, particularly those having military or nuclear use, export to most countries requires little more than completing a short form and selecting from a list the class of goods. In the case of meetings where non-military technical information is exchanged for use in Japan, a formal export license is probably not required. The penalties for violating U.S. export regulations can be quite severe (including imprisonment). Therefore, export of any goods or technology should not be done without first reviewing the applicable regulations. Finally, where the matter for export is technical information contained in a pending U.S. patent application, the U.S. Patent and Trademark Office must give prior approval. However, the U.S. Patent and Trademark Office grants export licenses for the great majority of patent applications.

PROTECTING THE JAPANESE COMPANY'S INTELLECTUAL PROPERTY RIGHTS

The time of purchasing an American business may also be a good time for the purchaser to review its own policies with respect to protection of intellectual property rights. Differences in law in the two countries, as well as changes in business exigencies, may necessitate such changes in policy. This is especially important if the Japanese company has not previously been directly involved in the American market.

It should be determined how the intellectual property rights of the Japanese company may be useful to the American business. Consider filing trademark, copyright, and patent applications in the United States on the Japanese company's intellectual property which may be useful to protect the market of the American business. Consider also the value of such filings for licensing purposes as another source of revenue for the American business.

It should also be determined whether the Japanese company's intellectual property policies with respect to the United States are serving the needs of the Japanese company. Japanese intellectual property law differs from U.S. intellectual property law in many ways. For example, Japanese patent practice generally involves the filing of many applications on narrow inventions. In contrast, American patent practice generally involves the filing of fewer applications, but on broader inventions. This difference arises primarily due to the nature of enforcement of patents in Japan and the United States. A full discussion of this subject is beyond the scope of this article. Nonetheless, the Japanese company is well advised to reevaluate the nature of the patents it has received in the United States, and the value of these patents in protecting market share and in licensing.

CONCLUSION

The internationalization of Japanese business has undoubtedly led to ever increasing purchases of American businesses by Japanese companies. Many of these transactions involve the transfer of complex mixes of intellectual property rights and assets. Failure to focus on the flow and state of this mix may leave the Japanese company with more liabilities than assets, even over the long term.

Proper due diligence therefore initially involves, among other things, scheduling agreements, particularly licenses; scheduling other intellectual property rights; and independently searching for intellectual property of the seller. The Japanese company should then pay close attention to the market-critical intellectual property described in the schedules. This close examination includes reviewing the transferability of critical licenses; reviewing market restrictions in critical licenses; looking for licenses in which the American business has given away too much; the dubious value of certain intellectual property; verifying ownership of key copyrights; maintaining pending patent and copyright applications through the transition period; and receiving and recording assignments.

Since litigation may drain the value of the acquisition, the Japanese company should appreciate the potential intellectual property liabilities of the American business. In this regard, the Japanese company is well advised to identify lawsuits, actions, interferences, oppositions, actions and known claims; preserve documentation, at least until its usefulness can be determined; obtain the cooperation of the American employees; draft an agreement which considers every important aspect of the acquisition; and obtain proper warranties, indemnifications and covenants not to compete from the seller.

Other issues worth considering at this time include the affect of U.S. export laws on transfers of the intellectual property; and how best to protect the Japanese company's own intellectual property rights.

In sum, the goal of such an acquisition is to permit the Japanese company to continue and expand the American business. Retention and protection of intellectual property before and after the consummation of the acquisition should be a central focus.