

A photograph of a chessboard with a vertical line down the center. The left side of the board and the pieces on it are dark wood, while the right side and pieces are light wood. The background is a soft, out-of-focus light blue.

Morgan Lewis

# IP ISSUES IN MERGERS & ACQUISITIONS

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April 10, 2018



# Key IP Issues in Mergers & Acquisitions

1. IP due diligence: scope, validity, ownership, chain of title of IP, rights of use, infringement
2. IP considerations in structuring the transaction
3. IP issues in documenting the transaction
4. Following through on post-closing implementation and integration
5. Issues following failed transactions

# Importance of a Tailored Plan

1. Nature of transaction
  - a) Acquisition: share vs. asset; public vs. private
  - b) Equity investment
  - c) Collaboration: in-license; out-license; partnering
2. Focus early on business objectives and value
  - a) Importance of IP to business objectives
  - b) Relative importance of specific categories of IP
  - c) Determination of useful life of assets involved in deal



# Importance of a Tailored Plan (cont.)

3. Time/budget constraints
  - a) Competitive auction vs. exclusive negotiations
  - b) Role of in-house counsel
  
4. Acquiring less than entire business or contemplating post-acquisition divestitures?
  - a) Focus early on whether IP can feasibly be split

# Importance of a Tailored Plan (cont.)

5. Information available on public vs. private company
  - a) SEC and other public filings
  - b) Industry-specific filings/correspondence (e.g., FDA)
  - c) Discussion with and reliance on target's IP counsel and technical personnel
  
6. Privilege issues
  - a) IP opinions
  - b) Buyer (investor syndicates)

# 1. IP DUE DILIGENCE



# IP Due Diligence

1. Scope, validity, and ownership/chain of title of IP (patent, trademark, copyright, trade secret and other proprietary information, validity of patent(s) related to directly competing products)
2. Right to use and prevent others from using
  - Infringement analysis — by target or by third party with respect to target's IP
  - Obligations to others (open source, use of government funds)

# IP Rights Owned by the Target and Right to Sell Products/Services

1. "Registered" IP (patent, trademark, design rights, domain names, copyrights) versus "unregistered" IP (trade secret, confidential information, unregistered trademark)
2. Role of database searches for "registered" IP due diligence
3. Different approach to "unregistered" rights
4. Software, databases, open source, privacy issues



# IP Rights Owned by the Target and Right to Sell Products/Services (cont.)

4. Identifying issues affecting value
  - a) Ownership/chain of title: ensuring proper IP is transferred or transferable
  - b) Scope/Timing and Exclusivity
  - c) Validity
  - d) FTO
  - e) Review of measures taken to protect trade secrets and confidential proprietary information



# Agreements/Licenses Relating to IP Rights

1. Review of IP licenses and other IP-relevant agreements
2. Identify issues affecting value
  - a) Scope and transferability of IP licenses
  - b) Sufficiency of IP licenses for future operations
  - c) Impact of existing encumbrances on IP
  - d) Quality control in trademark licenses
  - e) Lurking franchises
  - f) Registered user filings
  - g) Intercompany licenses
  - h) Enterprise agreements



# Existing Litigation/Latent Litigation

1. Identification and assessment of infringement risks (including pending litigation)
2. Pending litigation, claims, disputes
3. Past litigation, claims, disputes
4. Challenges in identifying potential claims

## **2. IP CONSIDERATIONS IN STRUCTURING THE TRANSACTION**



# IP Considerations in Structuring the Transaction

## 1. IP Ownership

Evaluate options for ownership of IP (e.g., joint ownership, assignments, licenses)

# Transfer of IP

1. Interplay of IP, corporate and tax analysis
  - a) Ensure appropriate assets are transferred and liabilities are left behind
  - b) Ensure entities acquiring IP will exercise appropriate management/control
  - c) Minimize IP transfer costs, invalidity concerns
  - d) Minimize tax issues



# Sharing/Splitting IP

1. Splitting of IP rights along geography, fields of use, indication, lines of business, or other aspects?
  - a) Consider potential effect on IP value
  - b) Analysis depends on geography and level of relatedness of goods/services

# **3. ADDRESSING IP ISSUES IN DOCUMENTING THE TRANSACTION**



# Addressing IP Issues in Documenting the Transaction

- A. Definitions of Transferred IP and Retained IP in Acquisitions
- B. Indemnification, Special Escrows, and Allocation of IP Risk

# Addressing IP Issues in Documenting the Transaction (cont.)

## C. Licenses and Assignments

1. Ensure appropriate IP is transferred
2. Determine IP exclusivity related to transaction
3. Determine IP with broader application than transaction
4. Avoid faulty assignments
5. Minimize transfer delays/burden/costs
6. Determine interplay with non-compete language



# Addressing IP Issues in Documenting the Transaction (cont.)

## D. Representations and Warranties

1. Ownership
2. Validity
3. Infringement
4. Reasonable measures to protect trade secrets and confidential/proprietary information
5. Sufficiency of IP to conduct business as it is being operated

# Addressing IP Issues in Documenting the Transaction (cont.)

- E. Further Assurances
  - 1. Take full actions of effect/chain of title/ownership of assets
- F. Transition Licenses; Transition Service Agreements
  - 1. Balancing key legal principles (including quality control for IP licenses) with practical business concerns



# Addressing IP Issues in Documenting the Transaction (cont.)

- G. Planning for Integration of Acquired IP into Existing IP Portfolio
  - 1. Ensure appropriate documentation is transferred (e.g., official IP office documentation; pertinent files; counsel contact information)
  - 2. Relative rights for prosecution, maintenance and enforcement/defense of infringement actions

# **4. POST-CLOSING IMPLEMENTATION AND INTEGRATION**



# Post-Closing Implementation and Integration

- A. Compliance with Licenses and Agreements
  - 1. Phase-out of transition services (manufacturing, distribution, etc.)
  - 2. Phase-out of marks/names by seller
  - 3. Post-closing quality control in any trademark licenses

# Assignment Recordal

1. Know requirements for assignments and recordal in each jurisdiction
2. Minimize cost and time of obtaining assignments and recordals
3. Liaise with tax advisors regarding consideration



# Integration of IP into Existing Portfolio

1. Aligning IP protection to business objectives
  - a) Expanding existing coverage through strategic filing programs
  - b) Contracting coverage where needed
2. Implementing arrangements for appropriate ownership, control, and use of brands to avoid invalidity and tax concerns
3. Managing patent and trademark portfolios to meet objectives (including global maintenance and enforcement strategies)

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# **5. ISSUES FOLLOWING FAILED TRANSACTIONS**

# Issues Following Failed Transactions

1. Use of confidential information
2. Ability to continue with internal product/service development



# Summary

## **Maximizing Value/Minimizing Deficiencies**

1. Tailor approach to business objectives and value
2. Factor IP issues into transaction structure
3. Address IP issues in transaction agreements
4. Execute closing and post-closing integration

# Questions?



# Biography



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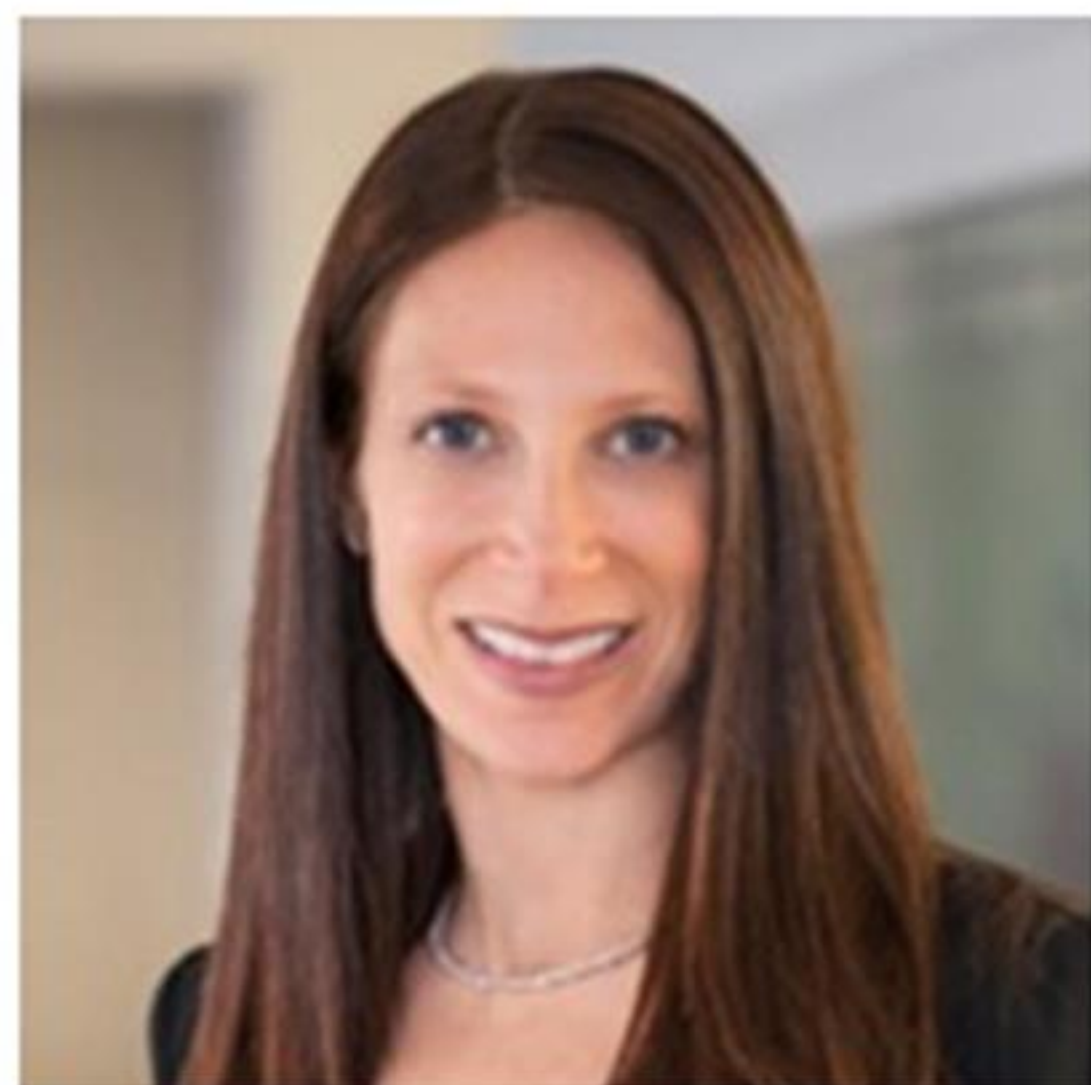
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Louis W. Beardell Jr. focuses his practice on intellectual property (IP) matters in connection with patent strategies, IP due diligence, litigation, and transactions. He assists clients in developing and implementing programs that protect products and inventions including trade secrets, particularly in the life sciences, technology, and financial services fields. For US and international clients, Louis negotiates and prepares the IP aspects of licensing and purchase agreements, as well as agreements relating to product and service supply, collaboration, research, consulting, patent litigation settlement, and material transfer.



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Rachelle Dubow's practice focuses on counseling, protection, and licensing of intellectual property rights, with an emphasis on trademark prosecution and global brand management. Rachelle assists domestic and multinational companies in the selection, clearance, registration, and enforcement of trademarks, the licensing of trademark rights, and the related manufacturing and distribution of licensed products and services. She also handles franchise-related matters, including counseling on the acquisition of franchise systems, and negotiating franchisee agreements and area development agreements for both franchisors and franchisees. In addition, Rachelle assists with general IP diligence, including franchise-related issues, in both M&A and investment-related transactions.



# Biography



For more than 20 years, Alison B. Weisberg has been advising clients on effective strategies to protect and leverage their domestic and international patent portfolios. Alison joined the firm as a litigation associate focusing mainly on IP disputes, and has expanded her practice to provide counsel to clients with respect to patent preparation and prosecution; patent due diligence; patent validity; and freedom-to-operate issues within the computer, software, and mechanical arts.

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