

Morgan Lewis

M&A ACADEMY

Maximizing Value, Minimizing Deficiencies: IP from A-Z

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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)

IP DUE DILIGENCE

A long-exposure photograph of a highway at night, showing vibrant red and blue light trails from traffic. The trails are curved and converge towards the top right of the frame, set against a dark blue background.

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.)


1. 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

The background features a dynamic, abstract composition of light trails. On the left, numerous thin, parallel lines in shades of red and orange streak across the frame, creating a sense of motion. These lines transition into a more structured, grid-like pattern of blue and white lines that converge towards the right side of the image. The overall effect is one of high-speed data or digital connectivity.

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

CLE Code

We will now announce the CLE code. Please save this number; you will be asked to provide this code in a survey immediately following the presentation today, which will generate once you exit the WebEx application. Please be sure to take the survey and apply the code where necessary in order to receive credit.

Please email Erik Scott at **erik.scott@morganlewis.com** if you have any questions.

The background features a dark blue gradient with numerous diagonal light trails. The top half is dominated by red and orange streaks, while the bottom half transitions into blue and white streaks, creating a sense of motion and digital connectivity.

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

The background features a dynamic, abstract composition of light trails. On the left, numerous thin, parallel red lines streak across the frame, curving towards the right. Below these, a series of thicker, more prominent blue lines also curve from the bottom left towards the top right, creating a sense of depth and movement. The overall color palette is dominated by deep reds and blues, with a dark, almost black, background that makes the light trails stand out.

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)

The background features a dark blue gradient with numerous diagonal light trails. The upper portion is dominated by red and orange streaks, while the lower portion transitions into bright blue and white streaks, creating a sense of motion and depth.

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

Key Takeaways from This Session

- IP may be a critical asset of the business you are acquiring. If so, focus on IP early in the diligence project by asking structured, targeted questions and reviewing all relevant documents that the Target provides, and identify issues that should be mitigated via the Transaction Documents and/or through post-closing cleanup.
- Joint IP ownership issues can be tricky, and parties planning on jointly owning IP should work together to ensure that each receives the rights that it expects, and to avoid unnecessary administrative costs and to ensure efficient tax treatment.
- It is imperative that the Transaction documents accurately identify the acquired IP and retained IP (if any), and that the Purchaser ensure that these documents provide for the transfer, acquisition and/or ongoing right to use all IP necessary to conduct the acquired business. Where certain issues are identified during diligence, they should be mitigated through conditions to closing, indemnification (and perhaps a special escrow), and post-close actions.
- After the Transaction closes, you should act quickly to right-size the acquired IP portfolio, update record title (as applicable), phase-out transitional services, and/or implement new policies and procedures designed to drive growth and protect the IP of the business. Failure to do so may give rise to unnecessary costs, lost opportunities, and exposure for infringement claims.

A long-exposure photograph of a highway at night, showing vibrant red and blue light trails from traffic. The trails curve from the top left towards the bottom right, creating a sense of motion and speed. The background is a dark, deep blue.

QUESTIONS?

Biography



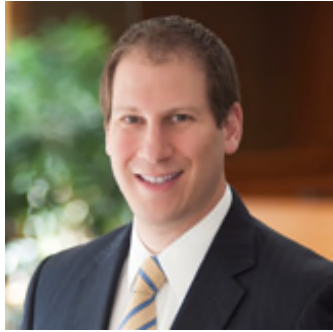
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John is a patent lawyer who focuses on implementing intellectual property (IP) programs for clients involving mechanical and life science technologies. Clients turn to John for counsel on patent portfolio management, patent strategy, product clearance, patentability analyses, and patent challenges including inter partes reviews. John also provides support for patent litigation, prepares and negotiates technology agreements, and works with clients on venture capital financing, merger and acquisition agreements, initial public offerings, and IP due diligence.

Biography



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Morgan Lewis

Dana's practice focuses on all aspects of trademark, copyright, and unfair competition law with particular focus on providing subject-matter expertise and high-level strategic advice in complex corporate transactions, including mergers and acquisitions, financings, service arrangements, sponsorships, licenses, and franchise relationships, as well as domain name and internet enforcement matters.

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