

**Morgan Lewis**

# **M&A ACADEMY**

**Technology in M&A Transactions –  
What Parties Care about When Buying  
and Selling Technology - 2022**

**Speakers:**

**Nancy Yamaguchi, Randall J. Wood**

February 22, 2022

## **Transfer and Assignment of Key IP and Technology Licenses**

1. Basic M&A Deal Structures
2. Types of IP and Key Issues re: IP and Technology Licenses in M&A Deals
3. Primary Sources of Law: Statutory References
4. Primary Sources of Law: Representative Cases
5. Key Takeaways from this Session

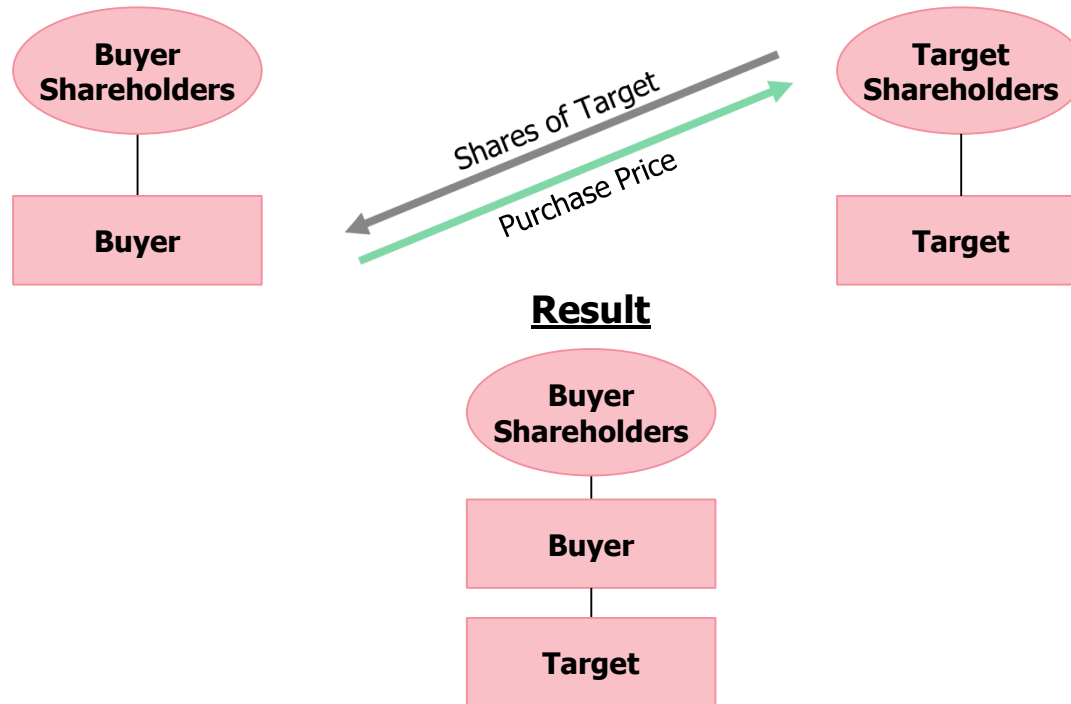
A long-exposure photograph of a highway at night, showing vibrant red and blue light trails from traffic. The trails curve from the top left towards the bottom right, creating a sense of motion and depth. The background is a dark, deep blue.

**SECTION 01**

# **BASIC DEAL STRUCTURES**

# Overview of Basic M&A Structures

## Stock Purchase

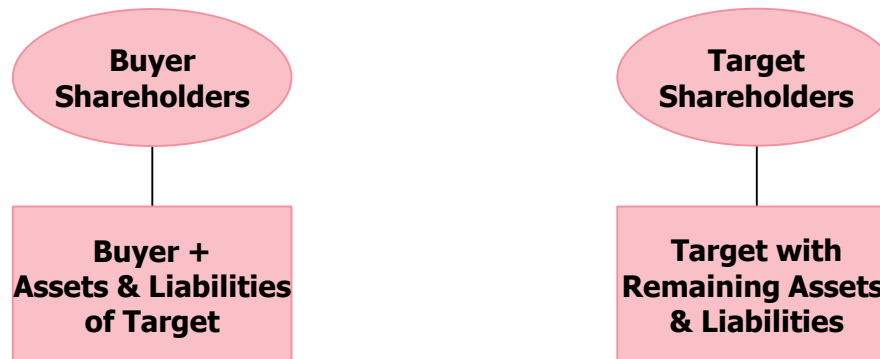


# Overview of Basic M&A Structures

## Asset Purchase

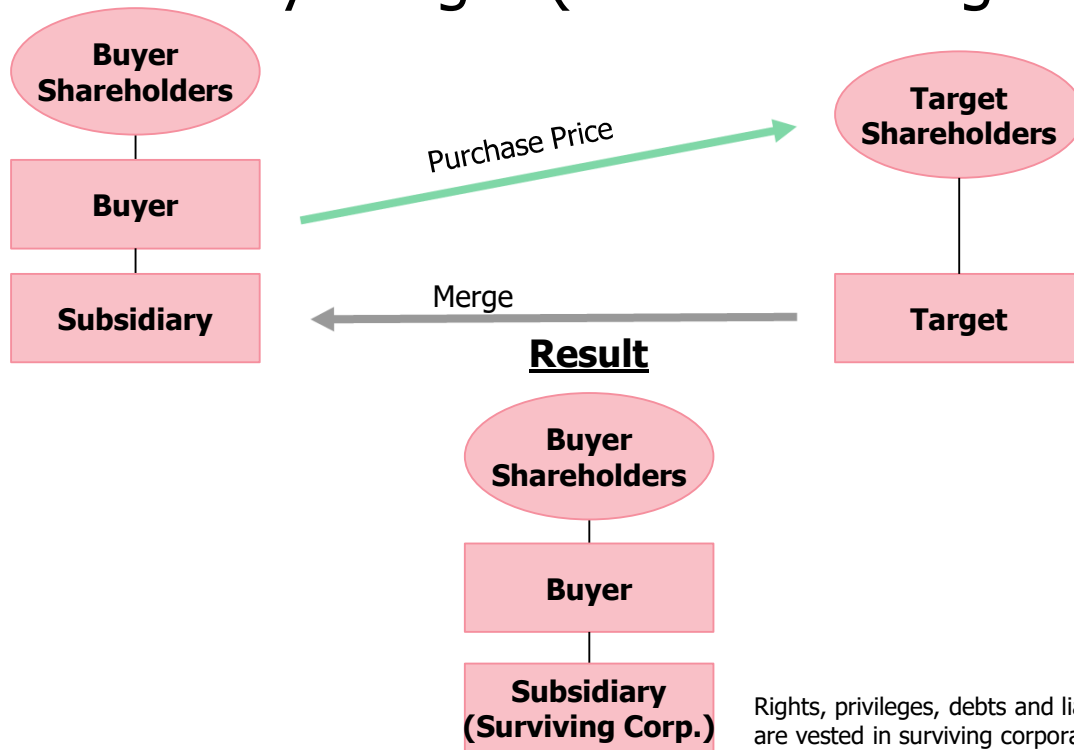


### Result



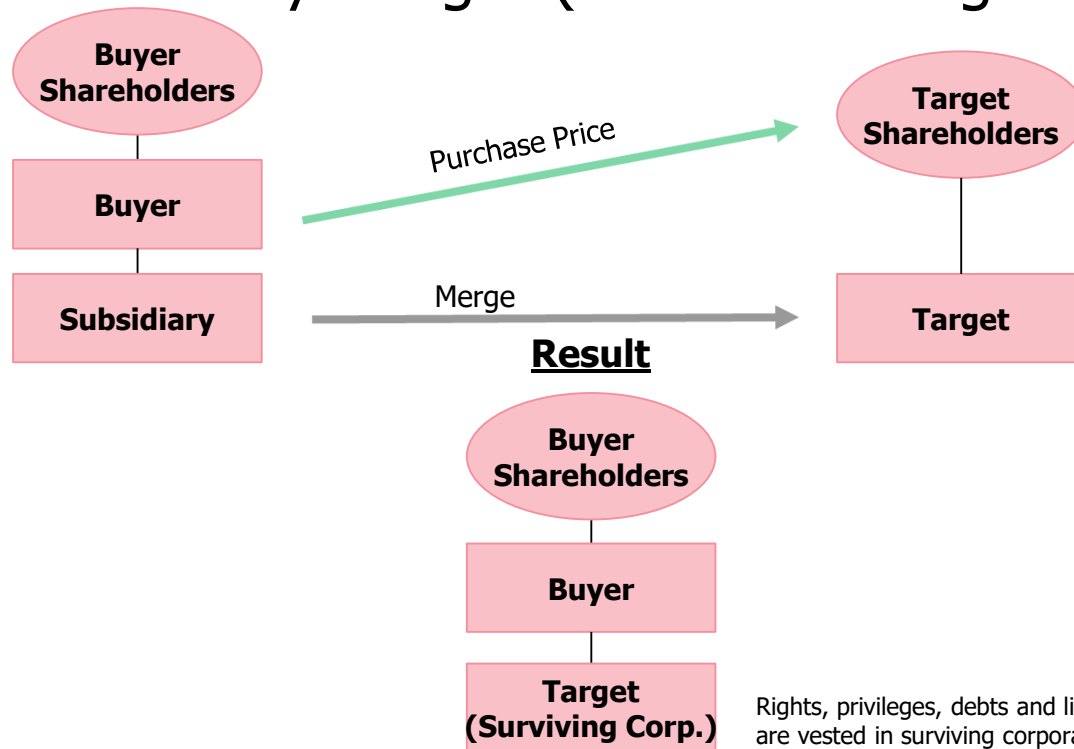
# Overview of Basic M&A Structures

## Statutory Merger (Forward Triangular)



# Overview of Basic M&A Structures

## Statutory Merger (Reverse Triangular)



The background features a dynamic, abstract design with numerous light trails in shades of red and blue, creating a sense of motion and speed. The trails are most prominent in the upper right and lower right areas, converging towards the top right corner. The overall color palette is dominated by dark blues and blacks, with the light trails providing a vibrant contrast.

**SECTION 02**

# **TYPES OF IP AND KEY CONSIDERATIONS RE: IP AND TECHNOLOGY LICENSES**



# Types of Intellectual Property Rights

## Patents:

Novel and useful inventions



## Registered designs:

Shape and design



## Copyrights:

Works of authorship  
(including software)



## Trade secrets:

Know-how and  
confidential information



## Trademarks:

Identification to  
product source



\*Note: Uniform Trade Secrets Act – state law, but Defend Trade Secrets Act of 2016 is a federal statute that amended the federal Economic Espionage Act (EEA) (18 U.S.C. § 1831, et seq.). DTSA does not preempt state trade secrets law.

# Key Considerations re: Transferability of Key Licenses in M&A Deals

## In-bound licenses:

- Buyer's sole objective in making acquisition may be to acquire the key IP or technology license
- Licensor/IP owner may refuse to grant a license to Buyer, especially if Buyer is a competitor
- Buyer may want to acquire the license for its own R&D and products/services
- Buyer or target/licensee may have built a business around the IP or technology being licensed and the business and associated investments may be lost without the license

## Out-bound licenses:

- Buyer wants to keep for business and revenue generation post-closing
- Alternatively, Buyer wants to terminate license, especially if licensee is a competitor or related to a competitor
- Licensee or customer (other party to the outbound license) may want to terminate due to Buyer or refuse to terminate if Buyer requests termination

# Key Considerations re: Transferability of Key Licenses in M&A Deals

- What law applies:
  - Federal vs. state law (federal policy of exclusive rights and ability of IP owner to control use of IP vs. state policy of free alienability and transferability)
  - Majority rule (federal common law governs assignment of IP licenses) vs. Minority rule (state common law governs assignment of IP licenses)
  - Delaware law vs. California law
- Type of IP:
  - patents, copyrights, trademarks (federal law)
  - trade secrets, know-how (state law)
- Non-exclusive licenses (non-transferable; personal to licensee) vs. Exclusive licenses (may be considered equivalent to ownership, esp. copyrights, and may be more transferable)
- Strategic buyer vs. private equity buyer
- Types of mergers: Forward (surviving entity is NewCo) vs. Reverse (surviving entity is target)
- Assignment by “operation of law” and what constitutes “Change of Control” (i.e. whether the definition includes mergers, sale of assets or stock, etc.)
- Equitable issues – involuntary license to competitors, inability to enforce license terms, licensee’s financial condition, material adverse effects on IP owner/licensor, harm to reputation, etc.

**SECTION 03**

**PRIMARY SOURCES OF LAW:  
STATUTORY REFERENCES  
AND FEDERAL VS. STATE LAW**

# Statutory References re: IP Licenses

## Federal law:

- U.S. Constitution, Article 1, Section 8, Clause 8 (patent and copyright clause)
- Patent Act (35 U.S.C. § 101 et seq.)
- Copyright Act (17 U.S.C. §§ 101 et seq.)
- Lanham Trademark Act (15 U.S.C. §§ 1051 et seq.)

## State law:

- UCC §2-210(2)
- Restatement (Second) of Contracts §317(2)
- Delaware Corporations Code §259(a) (merger statute)

# U.S. Constitution

## U.S.C.A. Const. Art. I § 8, cl. 8

### Article 1, Section 8, Clause 8 Patents and Copyrights

The Congress shall have Power . . .

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the **exclusive Right to their respective Writings and Discoveries;**

# UCC § 2-210(2)

## Delegation of Performance; Assignment of Rights

(1) A party may perform his duty through a delegate unless otherwise agreed or unless the other party has a substantial interest in having his original promisor perform or control the acts required by the contract. No delegation of performance relieves the party delegating of any duty to perform or any liability for breach.

(2) Unless otherwise agreed all rights of either seller or buyer can be assigned except where the assignment would materially change the duty of the other party, or increase materially the burden or risk imposed on him by his contract, or impair materially his chance of obtaining return performance. A right to damages for breach of the whole contract or a right arising out of the assignor's due performance of his entire obligation can be assigned despite agreement otherwise.

(3) Unless the circumstances indicate the contrary a prohibition of assignment of "the contract" is to be construed as barring only the delegation to the assignee of the assignor's performance.

(4) An assignment of "the contract" or of "all my rights under the contract" or an assignment in similar general terms is an assignment of rights and unless the language or the circumstances (as in an assignment for security) indicate the contrary, it is a delegation of performance of the duties of the assignor and its acceptance by the assignee constitutes a promise by him to perform those duties. This promise is enforceable by either the assignor or the other party to the original contract.

# Restatement (Second) of Contracts §317(2)

A contractual right can be assigned unless

- (a) the substitution of a right of the assignee for the right of the assignor would materially change the duty of the obligor, or materially increase the burden or risk imposed on him by his contract, or materially impair his chance of obtaining return performance, or materially reduce its value to him, or
- (b) the assignment is forbidden by statute or is otherwise inoperative on grounds of public policy, or
- (c) assignment is validly precluded by contract



# Delaware Corporations Code §259(a)

## Merger statute

When any merger or consolidation shall have become effective under this chapter, for all purposes of the laws of this State the separate existence of all the constituent corporations, or of all such constituent corporations except the one into which the other or others of such constituent corporations have been merged, as the case may be, shall cease and the constituent corporations shall become a new corporation, or be merged into one of such corporations, as the case may be, possessing all the rights, privileges, powers and franchises as well of a public as of a private nature, and being subject to all the restrictions, disabilities and duties of each of such corporations so merged or consolidated; and all and singular, the rights, privileges, powers and franchises of each of said corporations, and all property, real, personal and mixed, and all debts due to any of said constituent corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to each of such corporations shall be vested in the corporation surviving or resulting from such merger or consolidation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the surviving or resulting corporation as they were of the several and respective constituent corporations, and the title to any real estate vested by deed or otherwise, under the laws of this State, in any of such constituent corporations, shall not revert or be in any way impaired by reason of this chapter; but all rights of creditors and all liens upon any property of any of said constituent corporations shall be preserved unimpaired, and all debts, liabilities and duties of the respective constituent corporations shall thenceforth attach to said surviving or resulting corporation, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

**SECTION 04**

# **PRIMARY SOURCES OF LAW: REPRESENTATIVE CASES**

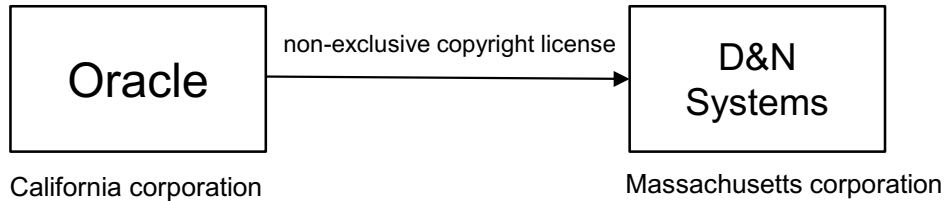


# Representative Case Law

- **SQL Solutions, Inc. v. Oracle**, No. C-91-1079, 1991 WL 626458 (N.D. California, 1991)
- **Florey Inst. of Neuroscience & Mental Health v. Kleiner Perkins Caufield & Byers**, 31 F. Supp. 3d 1034 (N.D. California, 2014); No. CV 12-6504, 2013 WL 5402093 (N.D. California, filed Sept. 26, 2013)
- **Meso Scale Diagnostics, LLC v. Roche Diagnostics GmbH**, 62 A.3d 62 (Delaware Court of Chancery, March 8, 2013)

# SQL Solutions v. Oracle (N.D. California 1991)

## 1987 software licensing and services agreement

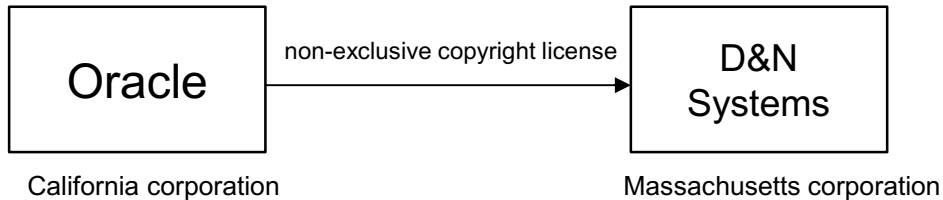


- Largest producer of relational database management systems (RDMBS) software
- Only Oracle, Sybase, Informix and Ingres produce “portable” RDMBS software
- Provides services and software for use in RDMBS

# SQL Solutions v. Oracle (N.D. California 1991)

## 1987 software licensing and services agreement

- Oracle owns the copyright to software and any derivatives or copies made by D&N
- Oracle granted to D&N a perpetual, non-exclusive software license to Oracle's software, documentation, user guides, updates
- Rights granted to D&N "exclusively" for use by D&N only
- Prohibition on any transfer or assignment to third parties
- License can be terminated by Oracle if D&N breach

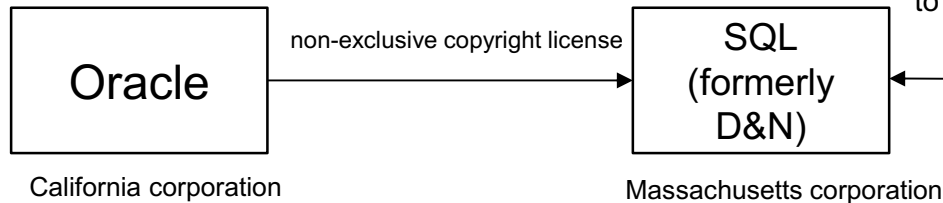


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# SQL Solutions case

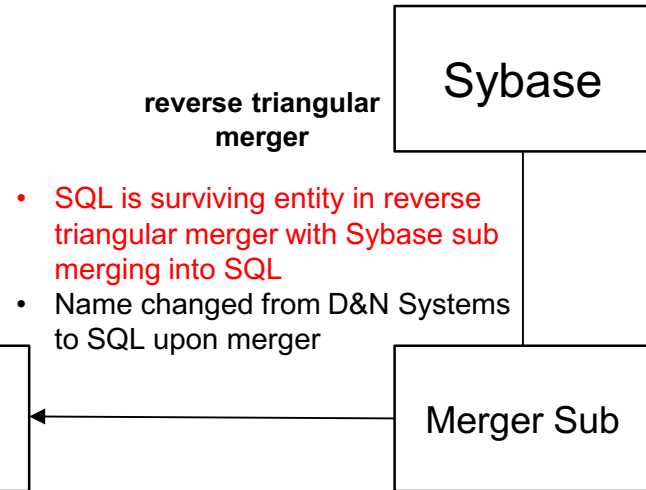
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## 1990 acquisition of D&N by Sybase

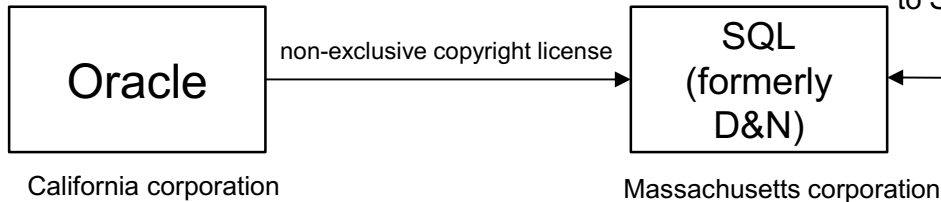


- SQL is surviving entity in reverse triangular merger with Sybase sub merging into SQL
- Name changed from D&N Systems to SQL upon merger

# SQL Solutions case

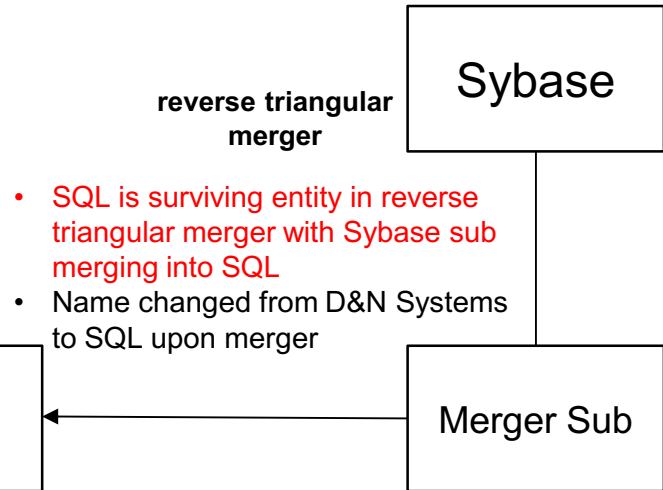
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- Provides services and software for use in RDMBS

## 1990 acquisition of D&N by Sybase



- SQL is surviving entity in reverse triangular merger with Sybase sub merging into SQL
- Name changed from D&N Systems to SQL upon merger

- After Sybase acquisition of SQL, Oracle terminates 1987 license and claims breach by SQL for "transferring rights"
- SQL responds that there has been "no transfer of rights"
- Oracle initiates suit in state court of California, SQL files federal action, state action withdrawn

# SQL Solutions case

- “The threshold question is **whether a transfer of rights occurred** through the reorganization of D&N into SQL.”
- Perpetual **non-exclusive copyright license** to use certain Oracle software, but use of software **exclusively limited to licensee and any assignment to third parties expressly prohibited and cause for termination of license**
- SQL argued that there was no transfer or assignment of rights because “**only a change of stock ownership was involved**”
- “California courts have consistently recognized that **an assignment or transfer of rights does occur through a change in the legal form of ownership of a business.**”  
Trubowitch v. Riverbank Canning Co., 30 Cal.2d 335, 344-45 (Supreme Court of California, 1947) (Justice Traynor opinion)
- California law governs in contract breach, but **federal law governs for copyright law and public policy**; “**state law must be applied in a manner that does not conflict with federal copyright law and policy**” (Supremacy Clause, Article VI, paragraph 2, U.S. Constitution)

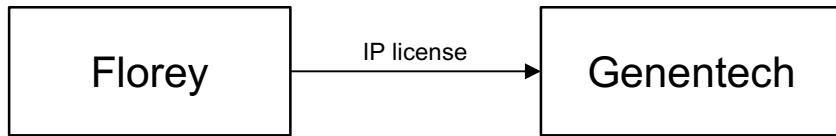


# SQL Solutions case

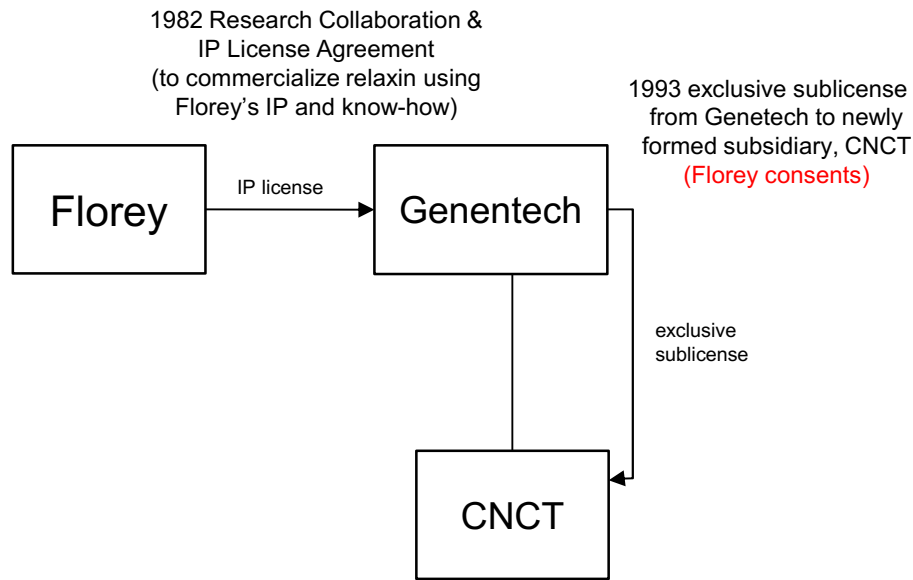
- “Whether the transfer of rights is prohibited depends on the law to be applied. **Federal copyright law provides a bright line prohibition against transfer of copyright license rights.**”
- “By contrast, under California’s *Trubowitch* rule, **if a transfer of rights occurs through change in the legal form of a business, such a transfer is permissible if it does not adversely impact** the party benefited by the prohibition against assignment.”
- “The court need not decide whether Oracle has been impacted adversely because it finds that **federal copyright law is applicable to the transfer of the copyright license** right which occurred in this case.”
- “**State law is preempted by federal law** in question of copyright law or policy.”
- Refers to Harris v. Emus Records case (9<sup>th</sup> Circuit, 1984) re: prohibition against transfer of copyright licenses and “historic kinship between patent law and copyright law”; “The **prohibition against transfer of patent licenses** is longstanding and frequently invoked.”
- “The Emus Records court observed that a parallel prohibition against the transfer of copyright licenses gave effect to the **policy of protecting creativity underlying enactment of the Copyright Act.**”

# Florey Institute of Neuroscience & Mental Health v. Kleiner Perkins (N.D. California 2014)

1982 Research Collaboration & IP License Agreement  
(to commercialize relaxin using Florey's IP and know-how)

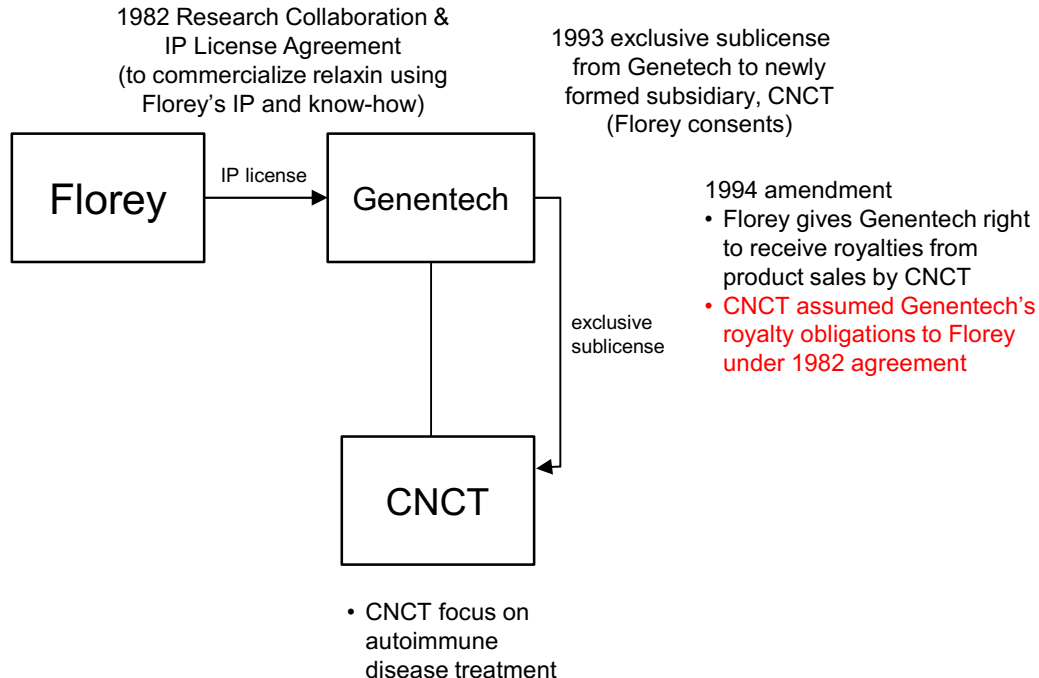


# Florey Institute case

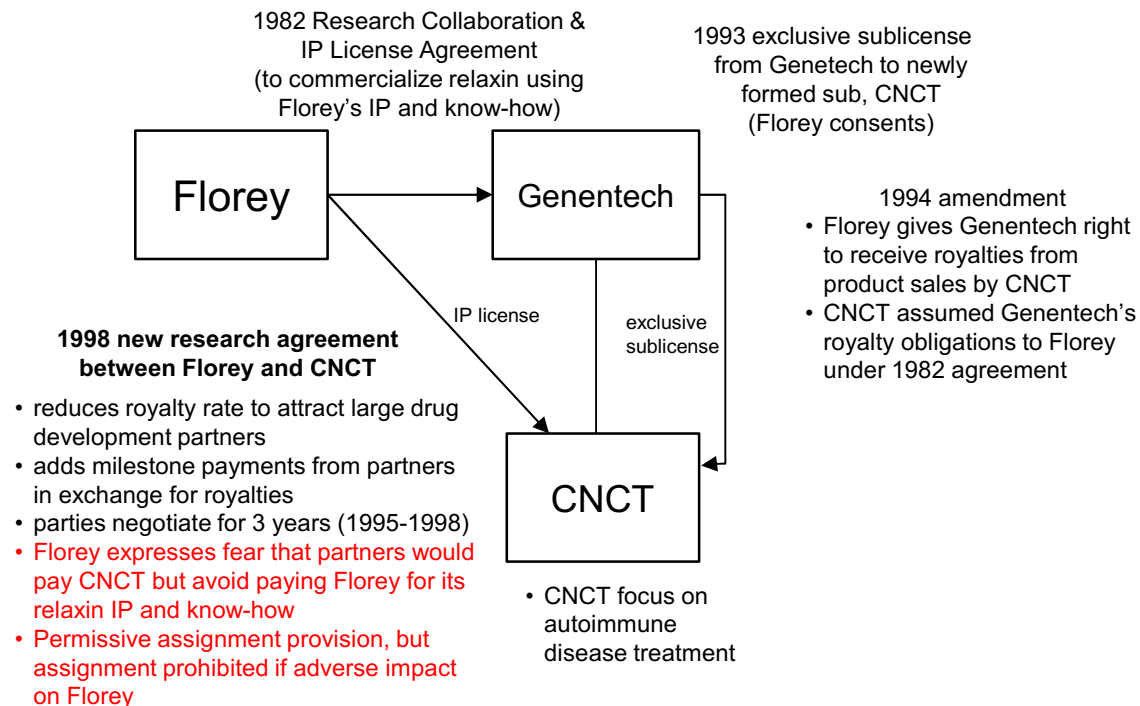


- CNCT focus on autoimmune disease treatment

# Florey Institute case

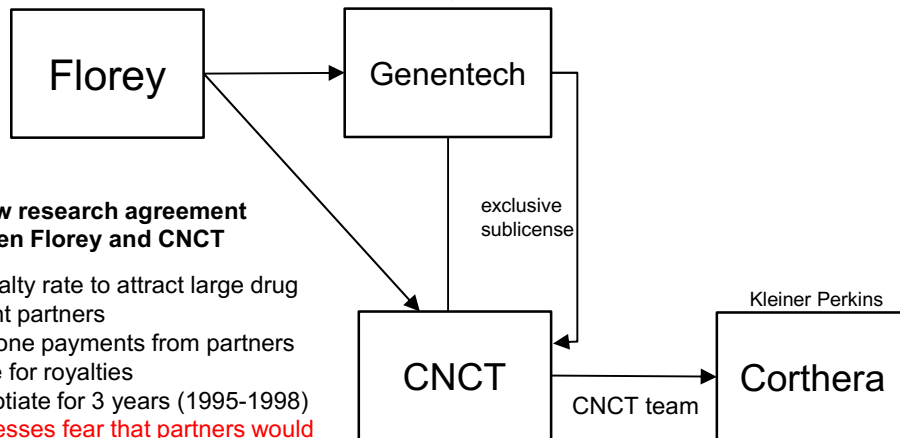


# Florey Institute case



# Florey Institute case

1982 Research Collaboration &  
IP License Agreement  
(to commercialize relaxin using  
Florey's IP and know-how)



## 1998 new research agreement between Florey and CNCT

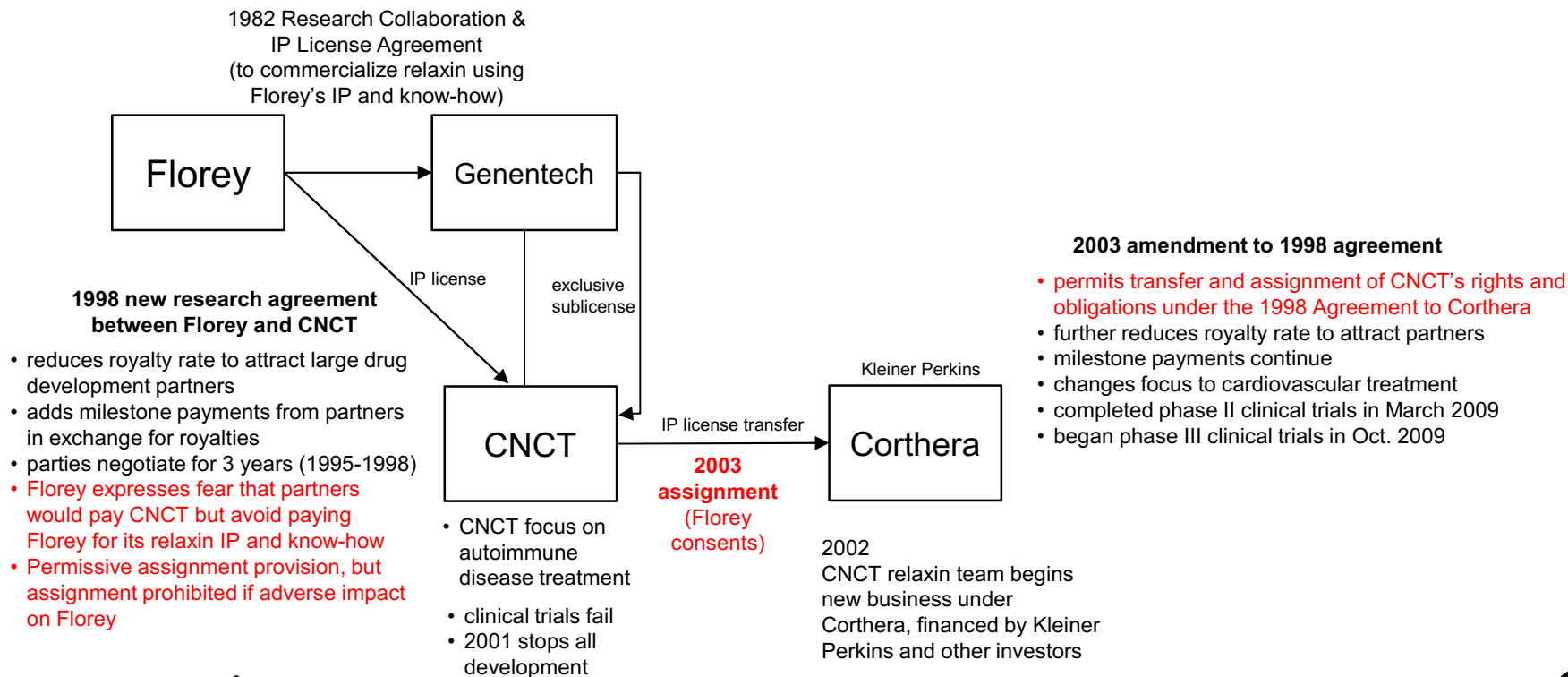
- reduces royalty rate to attract large drug development partners
- adds milestone payments from partners in exchange for royalties
- parties negotiate for 3 years (1995-1998)
- Florey expresses fear that partners would pay CNCT but avoid paying Florey for its relaxin IP and know-how
- Permissive assignment provision, but assignment prohibited if adverse impact on Florey

- CNCT focus on autoimmune disease treatment

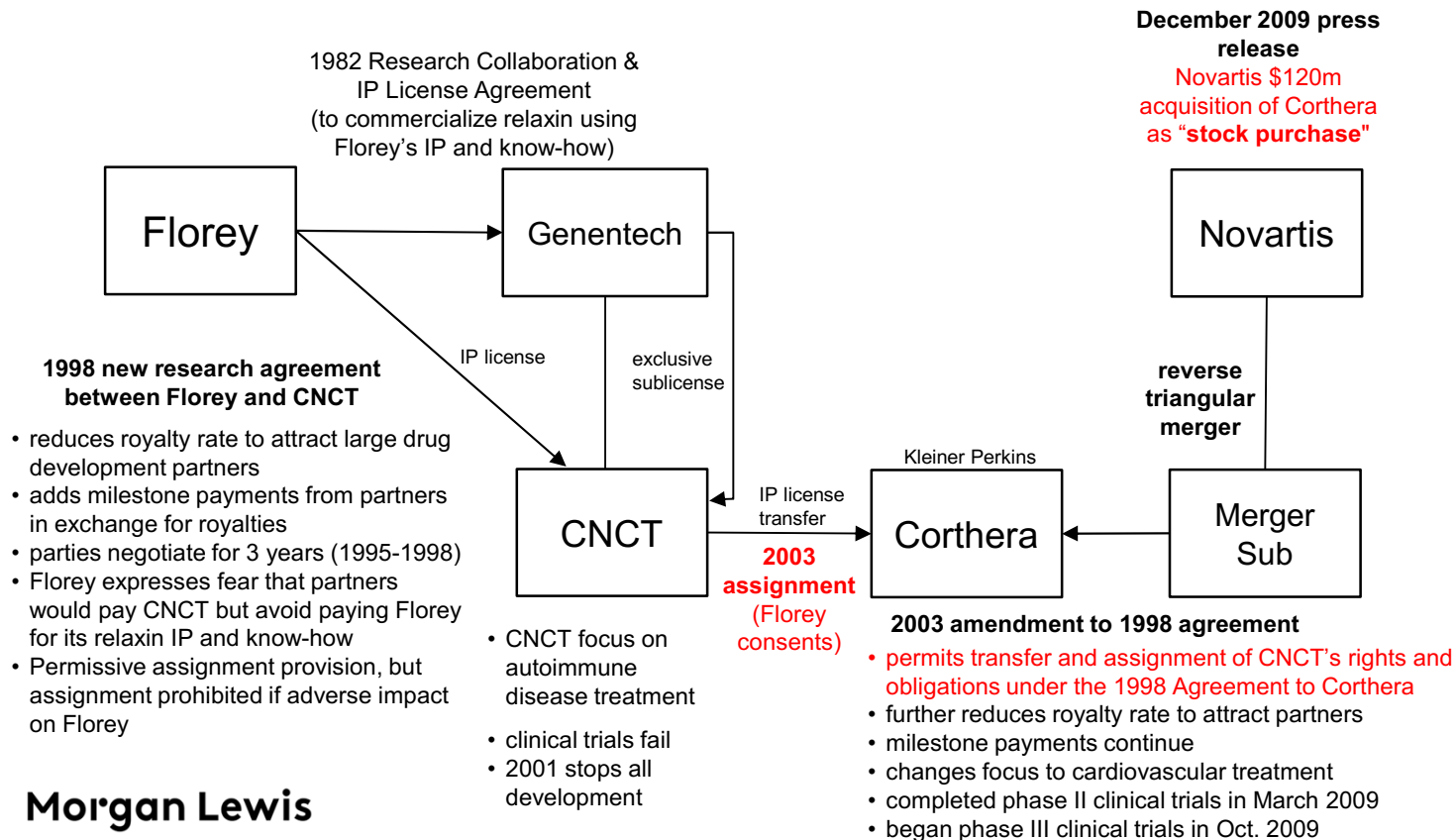
- clinical trials fail
- 2001 stops all development activity

2002  
CNCT relaxin team begins  
new business under Corthera,  
financed by Kleiner Perkins  
and other investors

# Florey Institute case

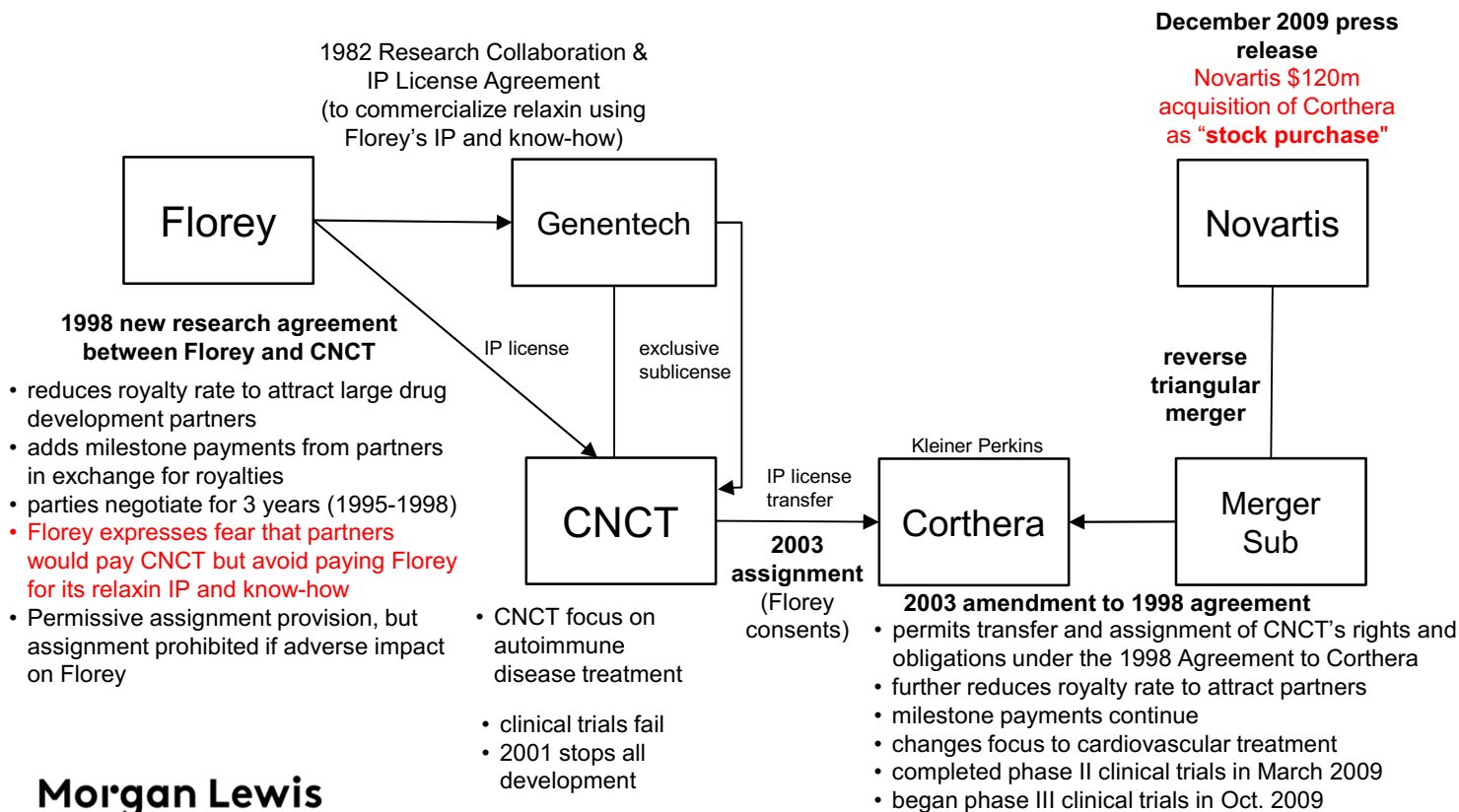


# Florey Institute case



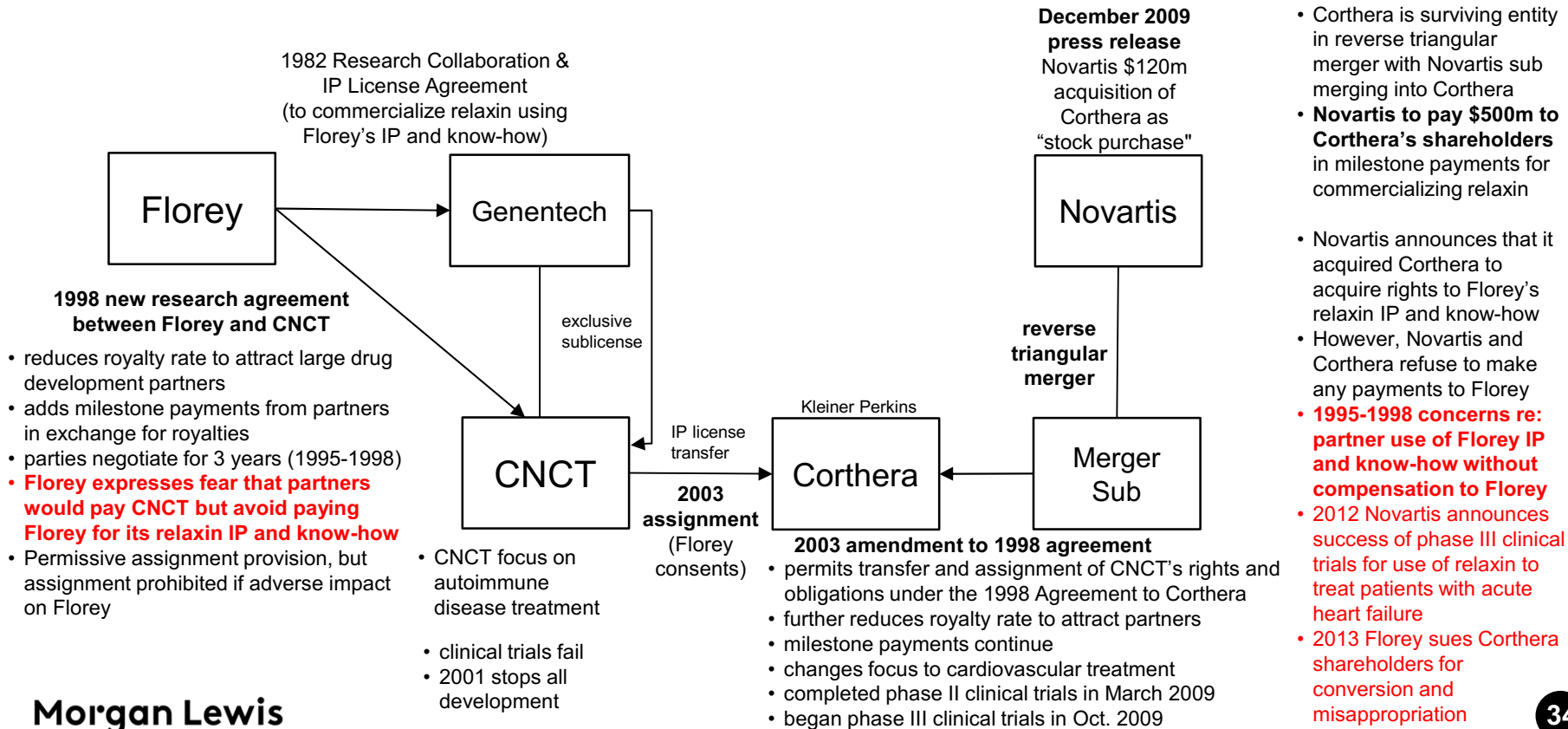


# Florey Institute case



- Corthera is surviving entity in reverse triangular merger with Novartis sub merging into Corthera
- Novartis to pay \$500m to Corthera's shareholders in milestone payments for commercializing relaxin
- Novartis announces that it acquired Corthera to acquire rights to Florey's relaxin IP and know-how
- However, Novartis and Corthera refuse to make any payments to Florey
- 1995-1998 concerns re: partner use of Florey IP and know-how without compensation to Florey

# Florey Institute case



# Florey Institute case

## Anti-Assignment Provision (1998 Agreement, as amended in 2003):

[E]ither party may assign, upon written notice to the other, both the rights and obligations of the [1998 Agreement] to the surviving corporation (“Surviving Party”) in any acquisition, merger or consolidation to which it is a party or to any person who acquires all or substantially all of its capital stock or assets or of the assets of that portion of such party’s business as to which the [1998 Agreement] pertains so long as such party (i) is reasonably determined to be financially able to fulfill its obligations under this Agreement; and (ii) does not materially impair the reputation of [Licensor].

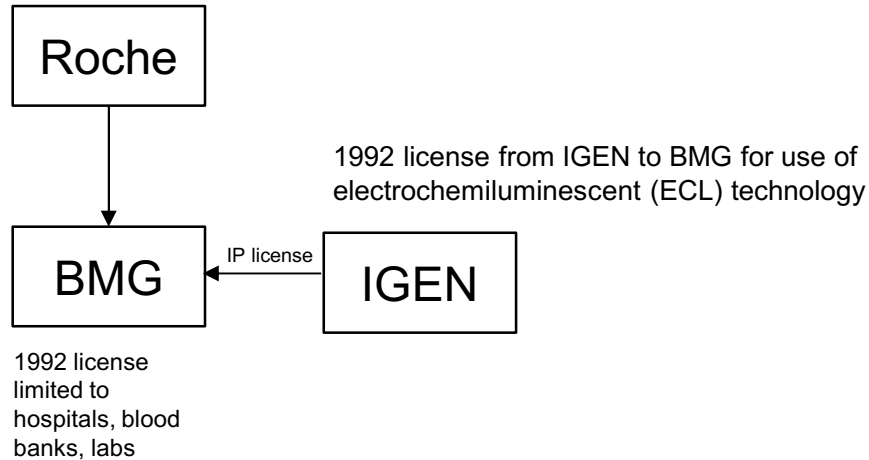
# Florey Institute case

- Did Novartis' reverse triangular merger with Corthera "transfer" Corthera's licenses to Florey's relaxin IP to Novartis?
- If Corthera remains a licensee, no property or interest converted or misappropriated
- Florey argued that Novartis assumed 1998 license between Florey and Corthera and merger effected a "legal transfer of Corthera's rights to Novartis without [Florey's] permission" citing to SQL case
- Court pointed out that SQL case "did not analyze nonassignment clauses and also found that federal copyright law forbid transfer"
- "[I]t is entirely unclear as to whether a reverse triangular merger actually effects an assignment of a target corporation's assets."
- "No California state court has resolved this matter, and the Court is not inclined to guess at possible conclusions."

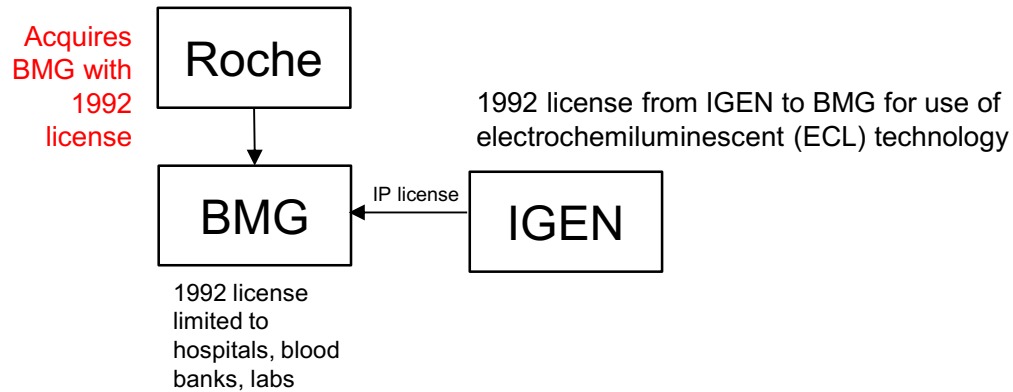
# Florey Institute case

- Court began from the presumption that “a reverse triangular merger, which leaves intact the acquired corporation, does not effect a transfer of rights from the wholly owned subsidiary to its acquirer as a matter of law” and analogized reverse triangular mergers to stock deals
- In a stock acquisition, “there could be no contention that the corporation’s licenses would be extinguished as a matter of law, since the **two contracting parties were still extant and in privity**”
- Court opined that “In a reverse triangular merger, the target corporation continues to own its assets even though the acquiring corporation owns all of the target’s stock”
- However, the Court **left open the issue of whether a “forward merger”** where the target corporation does not survive would result in a “transfer” of a key license requiring consent of the licensor
- Conversion and misappropriation claims dismissed

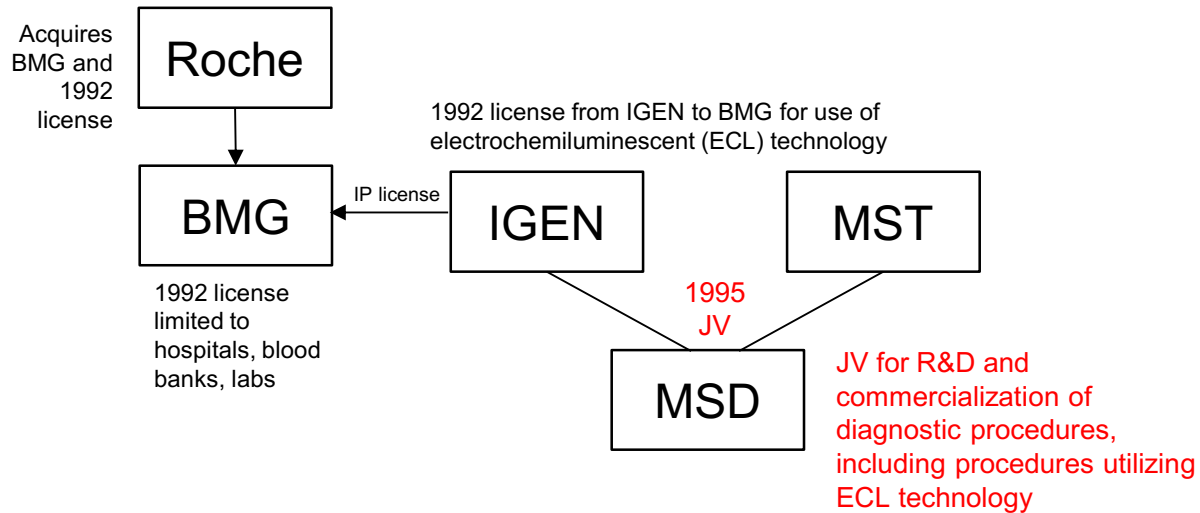
# Meso Scale Diagnostics v. Roche Diagnostics GmbH (Delaware Court of Chancery 2013)



# Meso Scale Diagnostics case

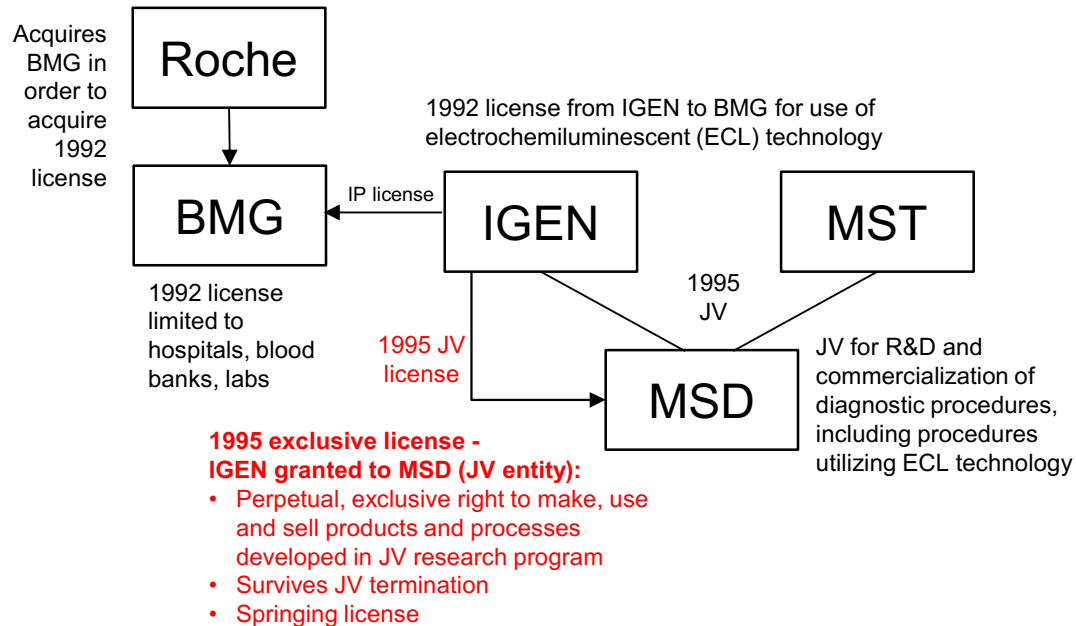


# Meso Scale Diagnostics case

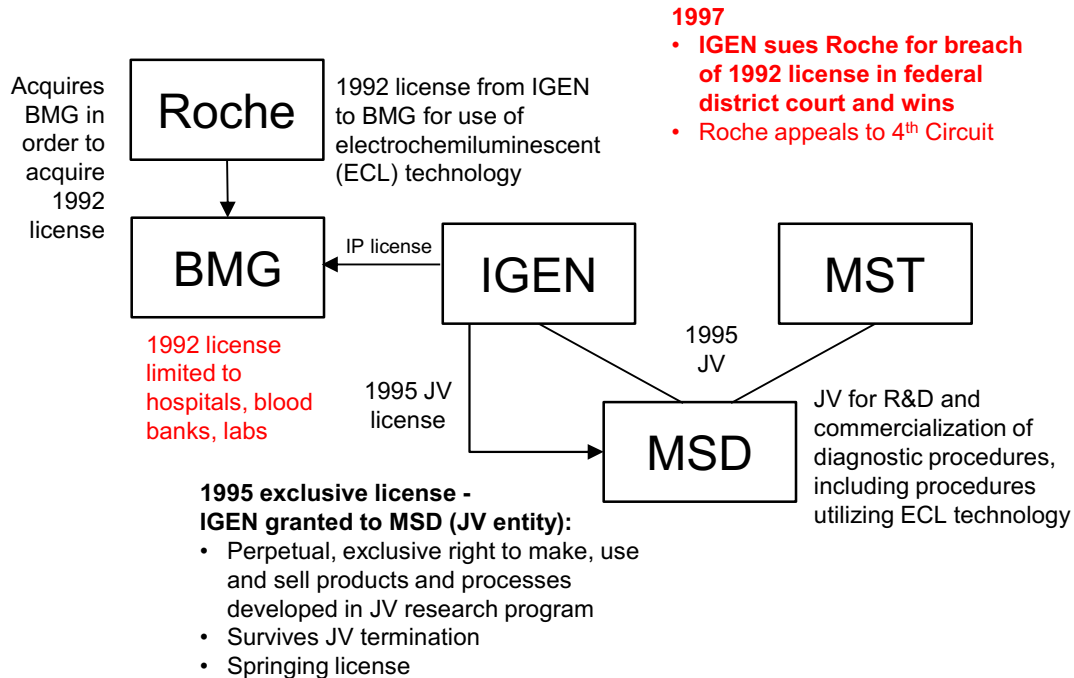




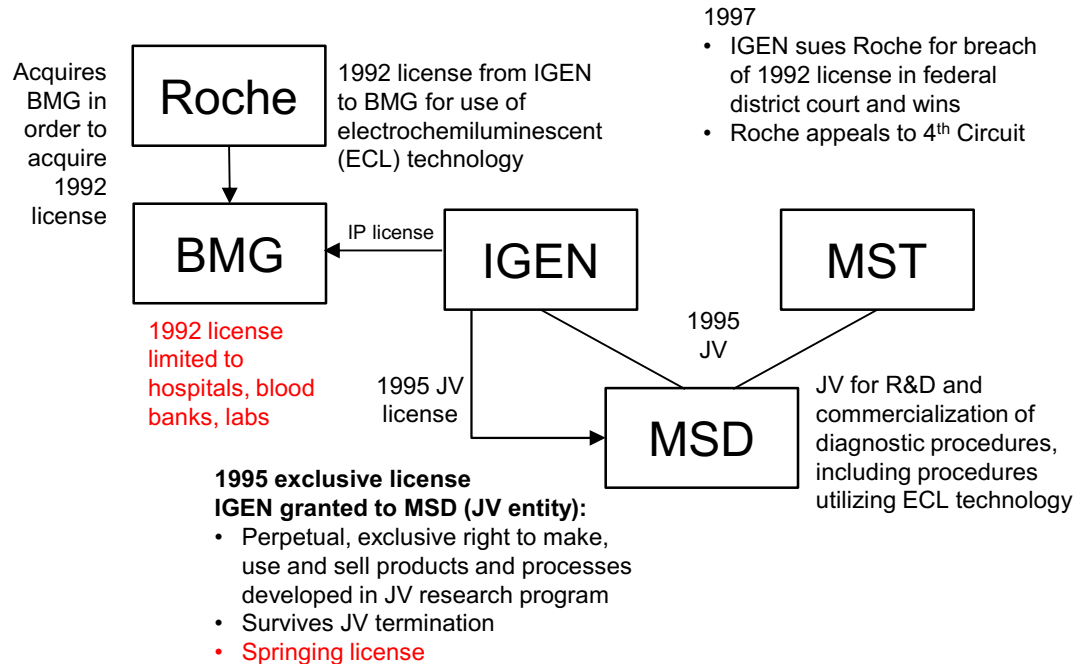
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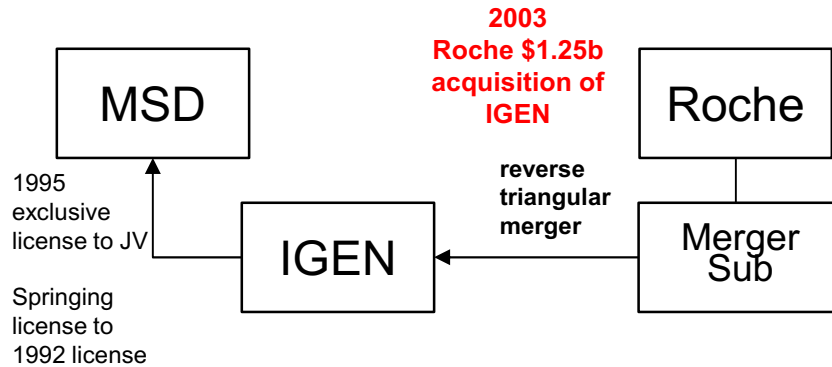
# Meso Scale Diagnostics case



## 2003

- 4<sup>th</sup> Cir. affirms lower court jury verdict finding Roche in breach
- **IGEN terminates 1992 license**
- **MSD receives the exclusive rights under 1992 license automatically via 1995 springing license, part of the JV deal**

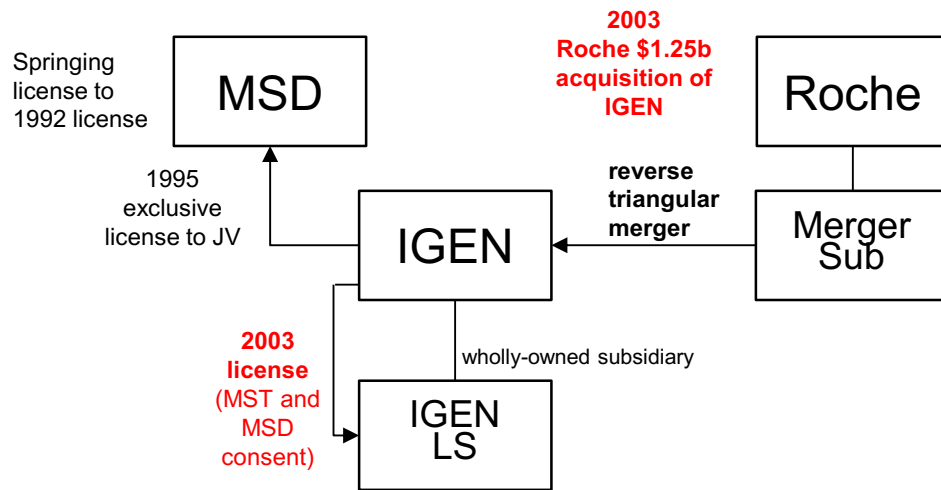
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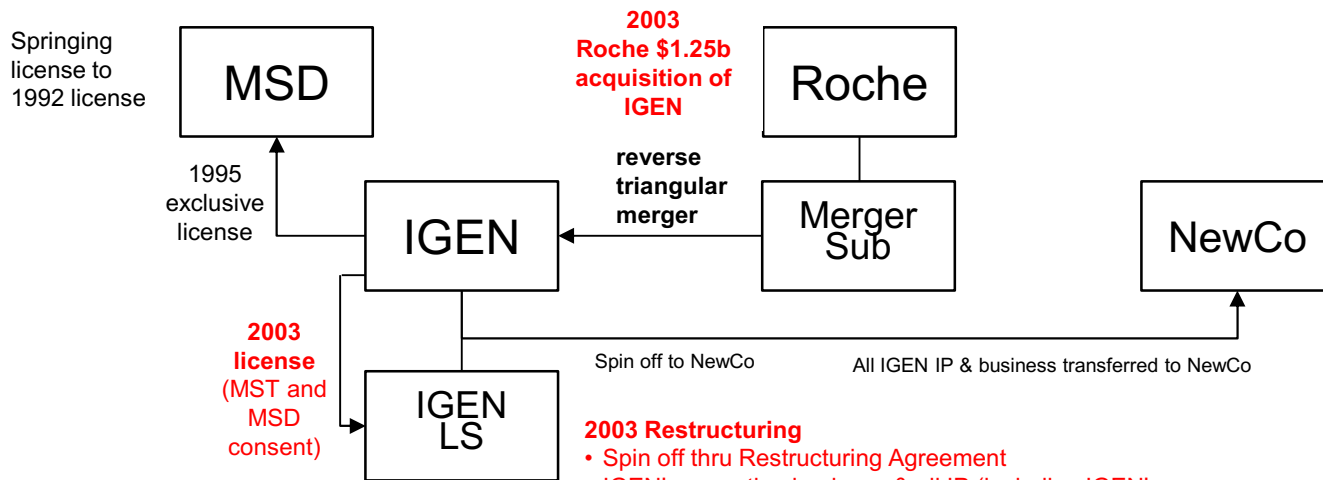
# Meso Scale Diagnostics case



IGEN granted to IGEN LS:

- Perpetual non-exclusive right to develop, use and sell ECL instruments and assays
- “Field” limited to analyzing of specimens from human body (patient use)

# Meso Scale Diagnostics case



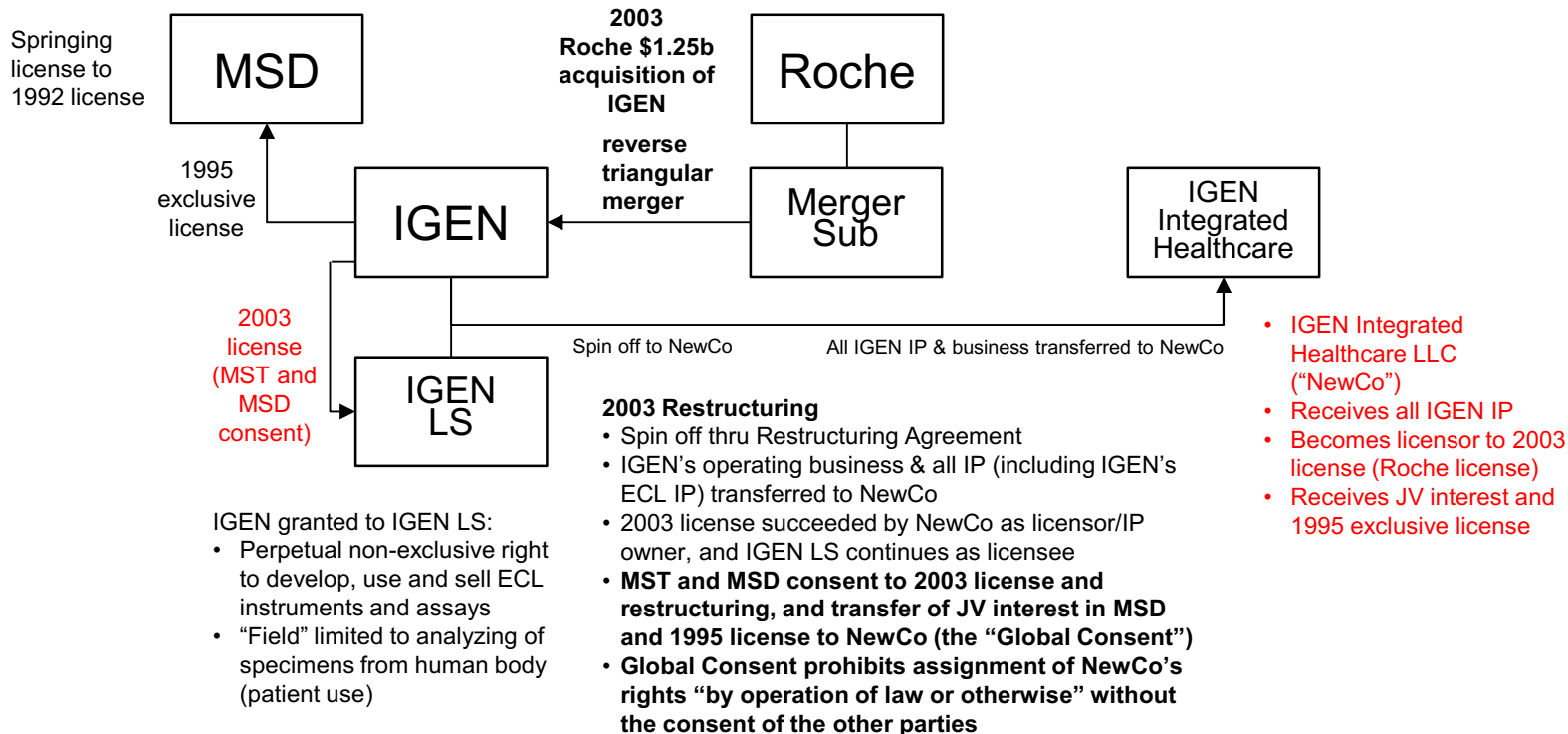
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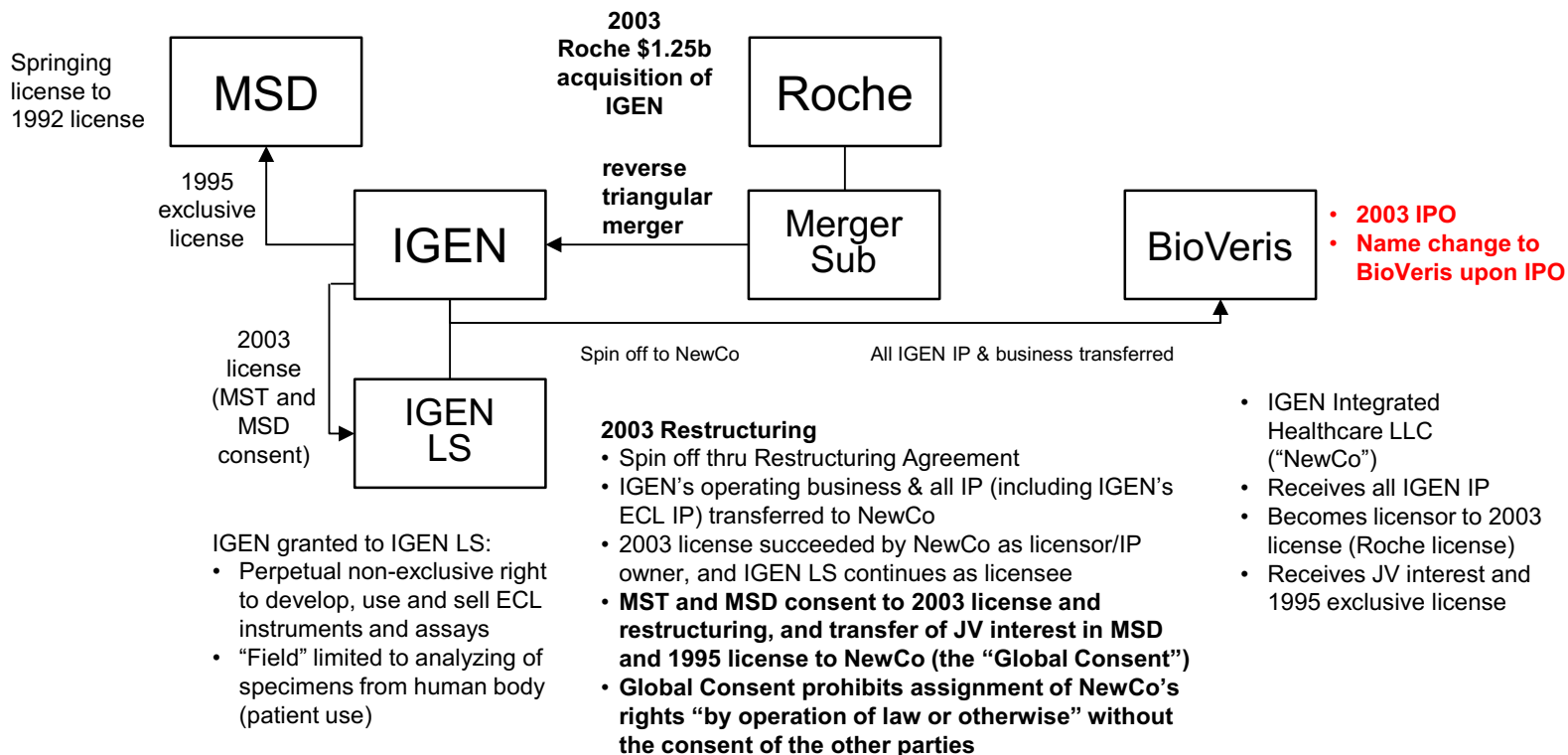
## 2003 Restructuring

- Spin off thru Restructuring Agreement
- IGEN’s operating business & all IP (including IGEN’s ECL IP) transferred to NewCo
- 2003 license succeeded by NewCo as licensor/IP owner, and IGEN LS continues as licensee
- **MST and MSD consent to 2003 license and restructuring, and transfer of JV interest in MSD and 1995 license to NewCo (the “Global Consent”)**
- **Global Consent prohibits assignment of NewCo’s rights “by operation of law or otherwise” without the consent of the other parties**

# Meso Scale Diagnostics case

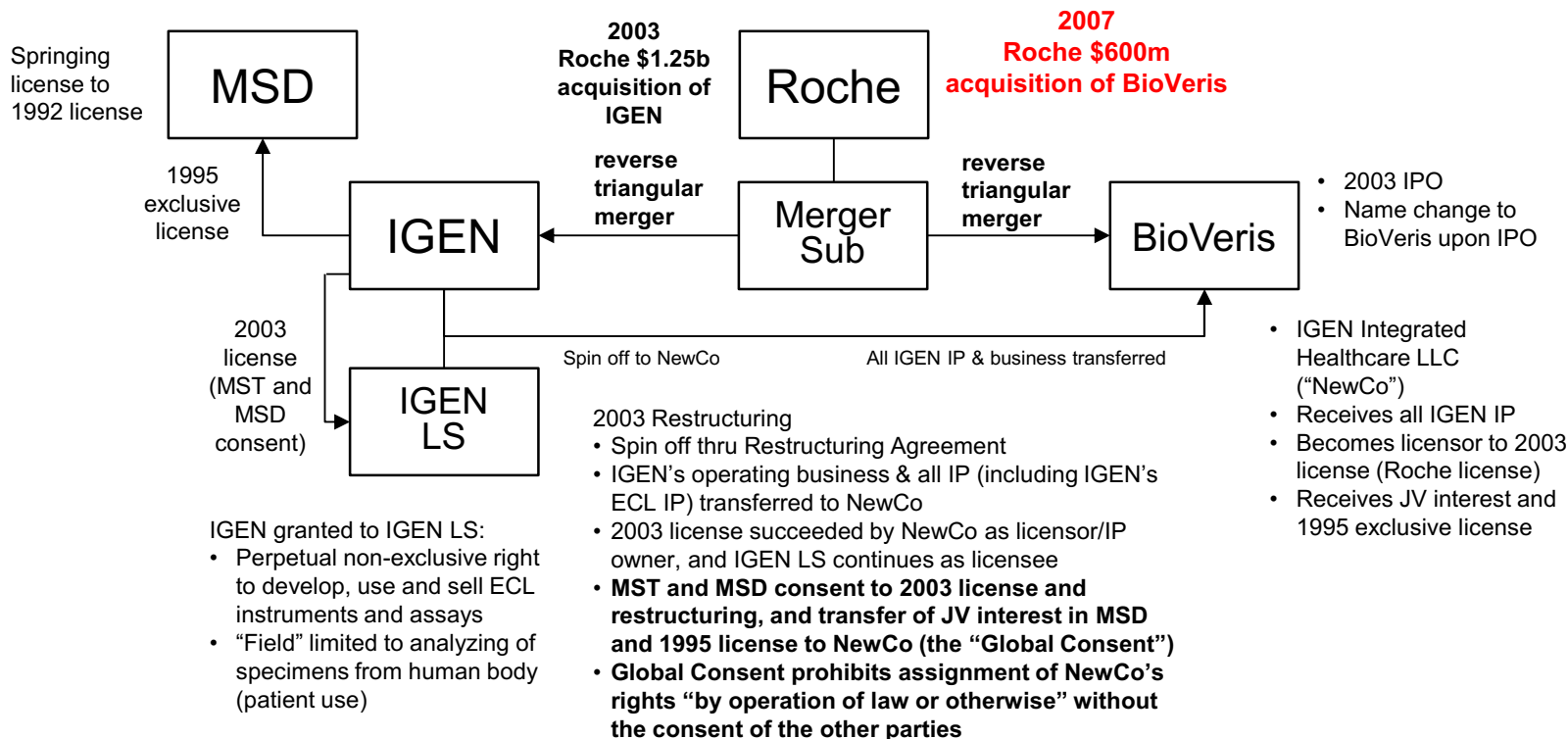


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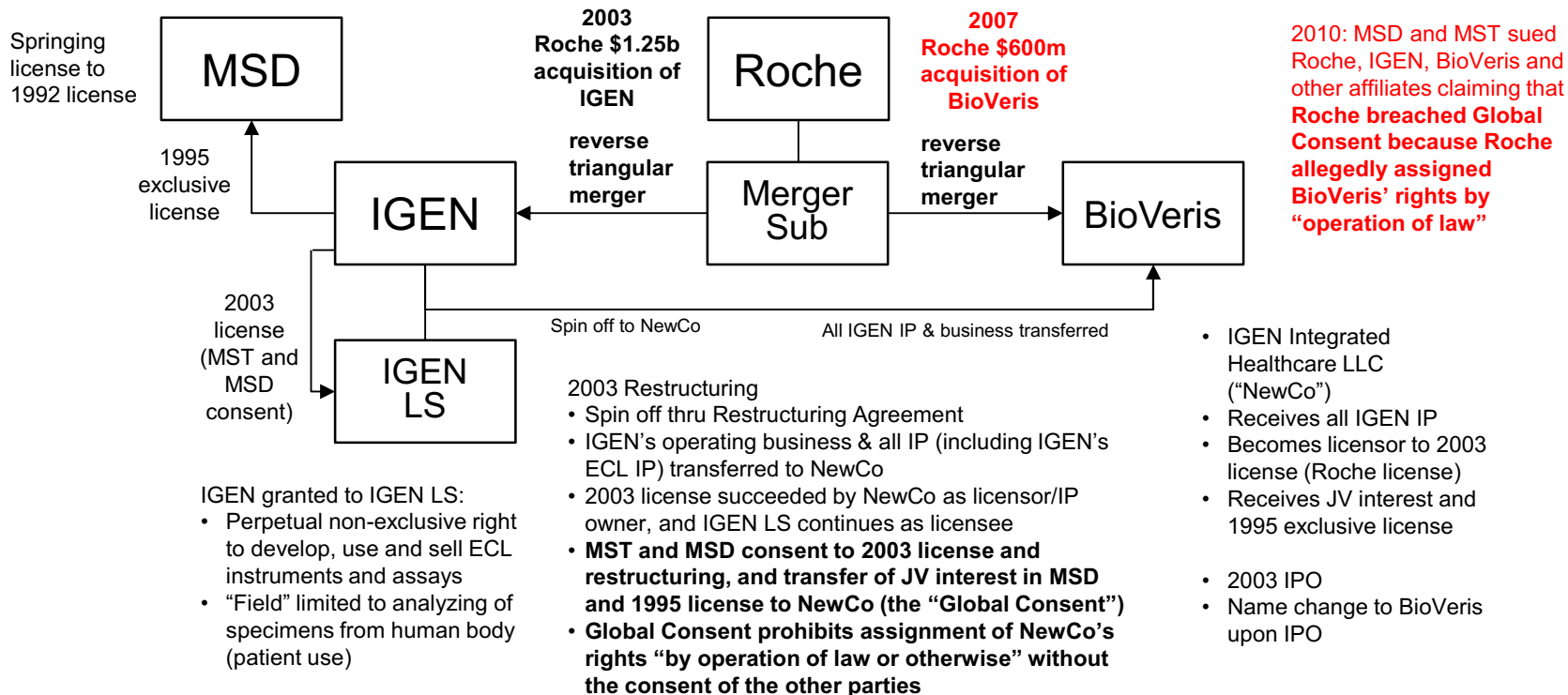




# Meso Scale Diagnostics case



# Meso Scale Diagnostics case



# Meso Scale Diagnostics case

## Anti-Assignment Provision:

Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, **by operation of law or otherwise** by any of the parties without the prior written consent of the other parties; provided, however, that the parties acknowledge and agree that the conversion of Newco in accordance with Section 2.01 of the Restructuring Agreement and the continuation of Newco as a result thereof **shall be deemed not to be an assignment and shall not require any consent of any party.** Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

# Meso Scale Diagnostics case

- Court first held that “rights, interests or obligations” in the Anti-Assignment Provision encompassed the “rights and interests” in IGEN’s IP and any direct or indirect rights or benefits under the MSD JV Agreement and 1995 JV license
- MSD and MST consented in the Global Consent to the transfer of IGEN’s IP to BioVeris, but the **Anti-Assignment Provision was intended to prohibit further transfer and assignment**, including the rights and interests in the MSD JV Agreement and 1995 license, **“by operation of law or otherwise”** without written consents from MSD and MST
- Court observed that the Anti-Assignment Provision **does not require MSD and MST’s consents for “changes in ownership”** and only requires consents for “assignment by operation of law”

# Meso Scale Diagnostics case

- Roche argued that:
  - No “assignment by operation of law or otherwise” occurred when Roche acquired BioVeris through the 2007 reverse triangular merger
  - BioVeris remained intact as the surviving entity of the merger and did not transfer or assign anything
  - The language “by operation of law or otherwise” makes clear that the parties did not intend to cover reverse triangular mergers
- Practice Tip – need to better specify how the IP license would be treated upon M&A deal
  - Is there an assignment by “operation of law” by virtue of a merger?
  - Court noted that the parties could have negotiated a “change of control” provision
  - Does “change of control” include reverse or forward mergers? Asset deals?

# Meso Scale Diagnostics case

- Court held that “Generally, mergers do not result in an assignment by operation of law of assets that began as property of the surviving entity and continued to be such after the merger” and cited to Section 259 of the Delaware General Corporation law
- Under Section 259, the surviving entity (BioVeris) continued to possess “all the rights, privileges, powers and franchises” that it had before the merger “plus those of each of the corporations merged into it.”
- “Thus, no assignment by operation of law or otherwise occurred as to BioVeris with respect to what it possessed before the merger.”
- “Delaware courts have refused to hold that a mere change in the legal ownership of a business results in an assignment by operation of law” (contrast with California)
- “[Plaintiff] could have negotiated for a ‘change of control provision.’ They did not. Instead, they negotiated for a term that prohibits ‘assignments by operation of law or otherwise.’”

# Meso Scale Diagnostics case

- Court refuses to adopt the approach in SQL Solutions and viewed reverse triangular mergers as being parallel to acquisition of shares in a target corporation (i.e. ownership of the target corporation changes, but the target corporation itself remains “as is”)
- “I decline to adopt the approach outlined in SQL Solutions, however, because doing so would conflict with Delaware’s jurisprudence surrounding stock acquisitions, among other things.”
- Refers to stock deals: “Under Delaware law, **stock purchase transactions, by themselves, do not result in an assignment by operation of law.**”
- “**Both stock acquisitions and reverse triangular mergers involve changes in legal ownership, and the law should reflect parallel results**”
- Similar holding as Florey case:
  - reverse mergers equivalent to stock acquisitions (i.e. changes in ownership, but licensee remains the same)
  - open question re: forward mergers

**SECTION 05**

# **KEY TAKEAWAYS**





# Key Takeaways – Buyer

- If motivation to acquire the target company is a key IP and technology license (especially in life sciences industry), review in detail history of transfer/assignment, restructuring and prior deals affecting license
- Due diligence action items:
  - Carefully review anti-assignment, change of control and termination provisions
  - Confirm whether or not consents from the IP owner/licensor were obtained
  - Involve IP licensing expert early in the due diligence process
- Deal structure:
  - Preference for acquisition through a stock deal or reverse merger
  - In asset deal or forward merger, need to obtain consents
- Understand economics of underlying licensing deal:
  - Rights of IP owner/licensor to royalties, up-front payments, milestone payments
  - Require seller to make payments to IP owner/licensor as part of purchase price?
- Require licensor consent as closing condition
  - If consent is not obtained, consider whether an equivalent license is available for Seller to source
  - Negotiate other remedies – purchase price reduction; indemnification for infringement or other damages

# Key Takeaways – Seller

- Seller as licensee to key IP and technology license
- Obtain broad consents from IP owners/licensors
- Ensure that all payments (e.g. royalties, milestone payments, etc.) have been made and understand future payments that Buyer would assume
- Prepare for Buyer team's due diligence review:
  - Carefully review anti-assignment, change of control and termination provisions and develop a clear position to take vis-à-vis Buyer team
  - Review past consents granted or refused
  - Look for "transfer fees" or "change of control fees"
  - Rely on IP licensing expert prior to commencement of due diligence
  - Explore whether replacement licenses are available
- Deal structure – review proposed structure and assess likelihood of objection by IP owner/licensor
- Disclosure schedule – list of key licenses that require consents
- Transition Services – consider whether short-term license by way of transition services is a possible solution

# Key Takeaways – Buyer and Seller

Key contractual language for due diligence review:

- “transfer and assignment”
- “non-transferable” and “non-assignable”
- “assumes” “accepts” “vests”
- “rights and interests” and “obligations and duties”
- “successor and assignees” (could be interpreted as permitting assignment)
- transfer by “operation of law”
- assignment “in whole and in part”
- license is “personal” to licensee
- definition of “Change of Control”
- termination upon a “Change of Control”
- “restructuring and reorganization”
- transfer and assignment to “Affiliates”
- What law governs?

# Key Takeaways – IP Owner/Licensor

- In the key license agreement:
  - Prohibit changes in licensee ownership via clear “Change of Control” provision
  - Prohibit “assignment by operation of law,” but clearly define what this means
  - Include express provision that mergers (including reverse mergers) and stock deals constitute “assignment” requiring the licensor’s consent
  - Negotiate what constitutes “Change of Control” (what types of mergers included?)
  - Add termination provision where the license automatically terminates or terminates at the discretion of licensee upon “Change of Control”
  - Be careful with “successors and assigns” language
  - Require any transferee of license to abide by the terms and conditions of the license agreement
  - If the license is transferred to a third party or the licensee is acquired by a third party, require the original licensee to be responsible for the third party’s compliance with the license agreement
- Documentation of concerns re: payments due for IP (e.g. WHEREAS clauses in license agreements; emails and memos; strong payment provisions)
- Regular and frequent communication with the licensee that may be a target of acquisition by a third party (e.g. Florey discovered Novartis’ acquisition of Corthera through press release of law firm)

# Biography



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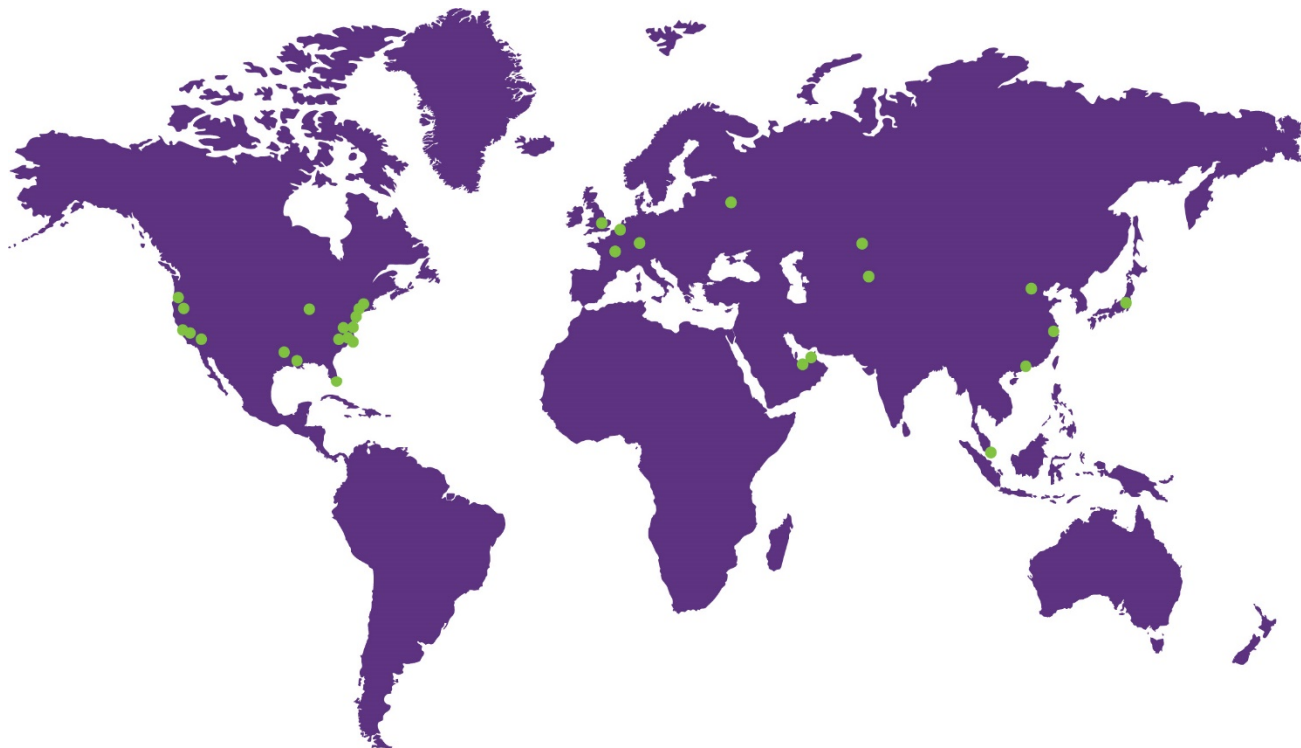
With experience in closing more than 150 corporate transactions, Randall J. Wood has advised on deals having an aggregate value in excess of \$20 billion. His practice focuses on mergers and acquisitions, private equity transactions, venture capital financing, and emerging business matters. He also assists clients with general corporate counseling and governance, and SEC registered offerings, reporting, and compliance. Randy represents private companies, public companies, and investors in domestic and international deals involving many industries, including technology, manufacturing, consumer/retail, pharmaceuticals, and life sciences.

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