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M&A ACADEMY

Intellectual Property Issues in M&A Transactions

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Overview of Intellectual Property Types

- **Patents:** Exclusive rights for inventions, typically lasting 20 years from filing.
- **Trademarks:** Protection for brand identifiers such as trademarks, service marks, logos and slogans. Is the Target's trade name also a trademark? Has the Target secured domain names and social media accounts associated with its trade name and any material trademarks?
- **Copyrights:** Exclusive rights for creators of original works, including literature, music, images and software, lasting for many decades.
- **Confidential Information/Trade Secrets/Know-How:** Protection for confidential business information, trade secrets and know-how, such as formulas or processes, source code, data/databases, and customer lists that provide a competitive advantage.
- **Licensing Agreements:** Agreements for use of the Target's IP by others, and the Target's licensed use of third-party IP.

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

3. Time/budget constraints

- a) Competitive auction vs. exclusive negotiations
- b) Coordination with in-house counsel and IP counsel

Importance of a Tailored Plan (cont.)

4. Acquiring less than entire business or contemplating post-acquisition divestitures?

- a) Focus early on whether IP can feasibly be split

5. Representation and Warranty Insurance (“RWI”)

- a) Incentives and pressure points can change
- b) RWI calls are more of a review of the diligence (rather than a review of the Target)
- c) Questions to prepare for an RWI call are at the end of the slide deck

Patent Diligence

- **Patent Portfolio Review:** Cross-referencing the Target's patent schedule with public records to ensure accuracy and completeness.
- **Ownership and Assignment:** Verifying patent ownership, ensuring proper assignments and transfers (including assignments from all inventors).
- **Validity and Patent Life:** Assessing enforceability (broad or narrow rights), scope of patent claims, remaining term, and potential for extension or renewal.
- **Freedom-to-Operate Analysis:** Analyze whether the Target's operations may infringe on existing patents by searching and comparing the scope of third-party patent rights against the Target's products/operations. *Has the Target previously obtained a "freedom-to-operate" opinion from its IP counsel?*
- **Litigation History:** Reviewing the Target's past or ongoing patent disputes (litigation, arbitration, or mediation) and any settlement agreements.

Trademark Diligence

- **Trademark Registrations/Applications:** Identifying and examining status, scope, and coverage of any registered trademarks and trademark applications.
- **Unregistered Trademarks:** Identifying whether the Target owns and is using any trademarks that it has not yet registered. Determining enforceability and registrability.
- **Conflict and Infringement Analysis:** Identifying potential trademark disputes or infringements. Performing clearance searches.
- **Related agreements:** Reviewing agreements related to trademark use, understanding any co-branding or coexistence arrangements.
- **Dispute History:** Reviewing past or ongoing trademark disputes, including TTAB proceedings, cease-and-desist letters, and settlement/coexistence agreements.

Copyright Diligence

- **Ownership Verification:** Identifying and examining registrations. Consider materiality, ownership, and “work for hire” doctrine.
- **Infringement Risks:** Identifying potential unauthorized use of copyrighted material, and the Target’s reliance on the fair use doctrine. Does the Target “scrape” data or content from the internet?
- **Licensing and Usage:** Reviewing agreements related to use copyrights (e.g., software, databases, content, photography, etc.).
- **Dispute History:** Reviewing past or ongoing disputes, cease-and-desist letters, and settlement/coexistence agreements.

Trade Secret Diligence

- **Identification and Valuation:** Identifying trade secrets, such as formulas, processes, software source code, data/databases, and which employees/contractors are most familiar with them.
- **Protection Mechanisms:** Evaluating measures in place to protect trade secrets, including physical and digital security measures and policies.
- **NDA Agreements:** Ensuring effective non disclosure agreements (NDAs) are in place with employees and outside contractors.
- **Defend Trade Secrets Act (DTSA) Whistleblower Notice:** Employee agreements entered into or amended on or after May 11, 2016 must provide notice of such employee's immunity for certain disclosures to a government official or attorney.

Ownership Verification in IP Due Diligence

- **Record Title:** Confirming ownership at all relevant IP offices and domain name registrar. Identifying liens.
- **Legal Ownership:** Confirming legal title and rights to IP, including appropriate language in employee and contractor agreements.
- **Joint Developments and Partnerships:** Identifying IP developed jointly with other entities, assessing implications for ownership and use. Joint patent ownership as compared to joint copyright ownership.
- **Historical IP Disputes:** Reviewing resolution of past ownership disputes, understanding implications for current IP status.
- **Transfer and Assignment Rights:** Ensuring IP assets (and record title) can be effectively transferred in asset deals. Limitations on transferring intent-to-use trademark applications.

Validity and Enforceability of IP

- **IP Maintenance:** Evaluate the Target's adherence to any maintenance requirements and government fee payments for registered IP to ensure that the Target is actively preserving its legal protections.
- **Enforceability Against Infringement:** Evaluating the Target's registration program for patents, copyrights and trademarks, and enforcement activities to confirm comprehensive protection of material IP rights.

IP Licensing Agreements and Contractual Analysis

- **Review of Licensing Terms:** Analysis of licensing and other IP agreements, including any royalties, exclusivities, field of permitted use, territorial rights, rights to sublicense, rights in derivative works, grounds for termination, indemnification obligations, limitations on liability and any uncapped liabilities.
- **Transferability Provisions:** Identifying limitations on assignment/transfer, change-of-control restrictions or rights of first offer/rights of first refusal, notice requirements and/or transfer fees and evaluating impact on the IP rights of the buyer post-close.

Open-Source Software in M&A

- **What is Open Source Software (OSS)?** Computer software that is made freely available under a license that allows the user to inspect, modify and enhance the software.
- **Identification of OSS Usage:** Identifying all open-source software used by the Target and understanding how it is used in connection with the Target's software or other products. Consider conducting an independent open-source software scan/audit.
- **OSS License Compliance:** Consider adherence to material terms of open-source licenses.
- **Proprietary Code Risk Analysis:** Assessing the impact of OSS on proprietary software. Has the Target used any OSS that is licensed under a "copyleft" OSS license and is the Target's proprietary software "distributed"?
- **Remediation:** Consider whether to require the Target to take steps to remediate any issues presented by its use of OSS, such as updating or replacing its proprietary software.

Software/IT/Website-Related IP and Compliance

- **Proprietary Software:** Identify any proprietary software that is owned by the Target and obtain information/documentation (including software development agreements) with respect to the development and/or acquisition of the software.
- **Third-Party Software:** Understand the Target's use of software/IT applications that are licensed from third parties. Obtain a list of such software and copies of related software license agreements/terms of use and assess if any assignments or consents from such third party may need to be acquired in light of the transaction.
- **IT Systems:** Has the Target's software/IT system experienced any breaches, failures or material disruptions? Does the Target have an adequate business continuity and disaster recovery plan?

Software/IT/Website-Related IP and Compliance (cont.)

- **Copyright Compliance:** Consider Target's rights to use text, images, and videos.
- **Domain Name Diligence:** Review public WHOIS records.
- **DMCA Processes:** Review measures taken to limit liabilities based on user-generated content.
- **ADA Compliance:** Consider if the Target's website is ADA compliant.
- **Data Protection and Privacy:** Is Target focusing on applicable privacy laws such as GDPR and CCPA? Does the Target have a website privacy policy and privacy officer?

Generative AI: Usage and Associated Risks

- **Transparency:** Does the Target use artificial intelligence (AI) to develop or improve what it considers to be its IP? Does the Target create deepfakes? Does the Target use copyrightable material to train an AI system?
- **Enforceability of AI Outputs:** Consider if and to what extent AI output can be registered at the Copyright Office or patented. Is there sufficient human authorship or inventorship?
- **Infringement Risks:** Whether use of copyrightable material for AI training is or is not a fair use has yet to be determined.
- **Disclosures and Representations:** Similar to open source software disclosures and representations, it is often appropriate to request AI related disclosures and representations.
- **International Laws:** The new EU AI Act (and copyright laws of the EU member states) may be relevant to companies outside the EU if they make an AI system available within the EU. Potentially applicable “copyright exceptions” may need to be considered.

International IP Challenges in Transactions

- **Tax Implications of IP Transfers:** Consider varying tax consequences in different countries for IP asset transfers.
- **Moral Rights and Related Concepts:** Note the greater significance of moral rights outside the U.S.
- **Non-Existence of Copyright Registries:** Copyright rights outside the U.S. can be difficult to diligence because most countries do not have copyright offices.
- **Reliability of IP Information:** Patent and trademark data in certain countries can be stale.
- **Need for Local Counsel:** IP diligence and post-closing title updates can require use of local counsel and country-specific assignment forms and powers of attorney (for which notarization/legalization may be required), substantially increasing costs. Also, in the case of IP developed outside of the U.S., local counsel may need to review the relevant IP development/assignment agreement to ensure that under the relevant local law the IP that has been developed is owned by the Target.

Examples of Potential IP Issues in Transactions

- **Invalid Key Patent:** Discovery of a material patent's invalidity.
- **Key Patent Chain-of-Title Issue:** Discovery that a material patent is not owned (or is not exclusively owned) by a Target.
- **Key Patent Encumbrance:** Discovery that a Target company's use or exploitation of a material patent is restricted due to a prior agreement or lien.
- **Limited Trademark Protection:** Finding insufficient trademark protection for key trademarks in the U.S. or international markets. Lack of enforcement against third parties.
- **Chain of Title Defects and Other Encumbrances:** Discovering gaps in the chain of title to registered IP or security interests have been granted and not released.
- **OSS in Proprietary Software:** GPL-licensed code found in proprietary software, potentially requiring unexpected source code disclosure.
- **Insufficient Software Licenses:** Discovering that the Target's use of third-party licensed software exceeds the scope and terms of its licenses.

Examples of Potential IP Issues in Transactions (cont.)

- **Leaked Trade Secret:** Trade secret exposure by a former employee or outside contractor.
- **Absence of IP Assignments:** Lack of proper IP assignment documentation from key personnel, creating ownership uncertainties.
- **Unauthorized Use of Name, Image, and Likeness:** Use of a celebrity's or other person's name, image, voice or likeness on the company's website or other marketing materials without a license or other permission leading to potential infringement claims.
- **Non-Compliance with ADA:** Discovering a material e-commerce platform is not non-compliant with ADA.
- **Inadequate Data Protection Measures:** Potential GDPR or other privacy non-compliance due to insufficient customer data protection.
- **Government/University Funding:** Discovering certain IP was developed using funding, facilities or personnel of a governmental entity or a university or other educational institution.
- **Target IP Dependencies:** In a "carve-out" transaction, has the Target relied on IP or IP-related services of the seller that will no longer be available (for free)?

IP Representation and Warranty Subject Matter

- Broadly speaking, IP representations and warranties typically address:
 1. identification of material IP (trademarks, copyrights, patents and trade secrets (at a high level))
 2. identification of material IP related contracts
 3. IP ownership
 4. IP encumbrances
 5. sufficiency of IP to operate the business
 6. IP non-infringement
 7. reasonable protection of trade secrets and confidential information
 8. restrictions on transfer of IP rights and consent requirements
 9. open source software issues
 10. (new) artificial intelligence issues
 11. privacy and data protection

RWI Questions

– General

- What is the company's material IP?
- Does the company have all intellectual property necessary to conduct its business?
- Will the company continue to have the same IP rights after closing as before?
- Do you have any reason to believe that any of the IP representations or warranties are untrue or the related disclosures incomplete?

– Search

- Did you confirm the accuracy of the IP disclosure schedules with your own searches?
- Did you check chain of title for the IP, including examination of assignment records?
- Did you find security interests or other encumbrances on the IP?
- Is all of the registered or patented IP maintained?
- Have you identified and confirmed ownership of all domain names of the company? Are they on auto-renew?

RWI Questions (cont.)

– Personnel

- Have all developers of IP, including both employees and contractors, assigned their rights in IP to the company?
- Does any employee or contractor/consultant have any rights to any IP of the company?
- Has anyone who has had access to confidential information of the company signed confidentiality agreements? Has any confidential information of the company been disclosed without authorization?

– Litigation and Enforceability

- Has any of the IP been alleged or found to be invalid or otherwise unenforceable?
- Are any of the company's trademarks being opposed or any patents subject to IPR or similar proceedings?
- Has the company been accused of infringement or are you aware of any potential infringement by the company?

RWI Questions (cont.)

– **Litigation and Enforceability (cont.)**

- Has the company engaged in any patent or copyright misuse?
- Was any IP of the company developed under contract with a governmental or educational institution?
- Is there any order that restricts use of the company's IP?
- Has the company abandoned any of its trademarks?
- Did the company perform any freedom-to-operate, noninfringement, or validity studies or opinions?
- How does the company protect its trade secrets?
- Is any third party infringing the IP of the company?
- Is the company involved in any IP litigation? Was a litigation search performed?

– **Agreements**

- Is the company's IP subject to any exclusive licenses?
- Has the company indemnified anyone for possible IP infringement claims?

RWI Questions (cont.)

- **Software**

- How does the company use open source software?
- Has any open source use or software licensing compliance audit been performed? When?
- How does the company protect its proprietary code? Is any of the company's source code in escrow?

- **AI**

- How does the company use artificial intelligence?

QUESTIONS?

Biography



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Ron advises clients on intellectual property (IP) and technology issues in business transactions. He provides advice in connection with mergers, acquisitions, and licensing arrangements as well as trademark, copyright, trade secret, and related IP law. A certified information privacy professional (CIPP), Ron helps companies assess privacy and information security issues. He regularly writes and presents on artificial intelligence (AI) and copyright, including authorship and protection of AI developments, fair use and machine learning, challenges presented by deepfakes, as well as IP diligence and nonfungible tokens (NFTs). He recently spoke on AI and copyright to the California Lawyers Association and Securities Industry and Financial Markets Association.

Biography



Joe Washington

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Joseph E. Washington guides clients through the intellectual property matters they face in today's global, connected environment, including prosecution, licensing, enforcement and litigation. These include disputes regarding trademarks, domain names, copyrights, unfair competition, and internet and computer law. Clients involved in corporate transactions turn to him for guidance on the IP aspects of their deals, including due diligence and drafting and negotiating the IP aspects of definitive agreements and ancillary agreements such as trademark, copyright, and software licenses and related agreements, as well as privacy issues and data protection.

Biography



Kiran Jassal's practice covers trademark, copyright, and unfair competition law, with a focus on corporate transactions, specifically mergers and acquisitions, joint ventures, and licenses. Kiran also handles internet enforcement matters as well as international trademark clearance, including developing cost-effective approaches to multijurisdictional clearance and protection.

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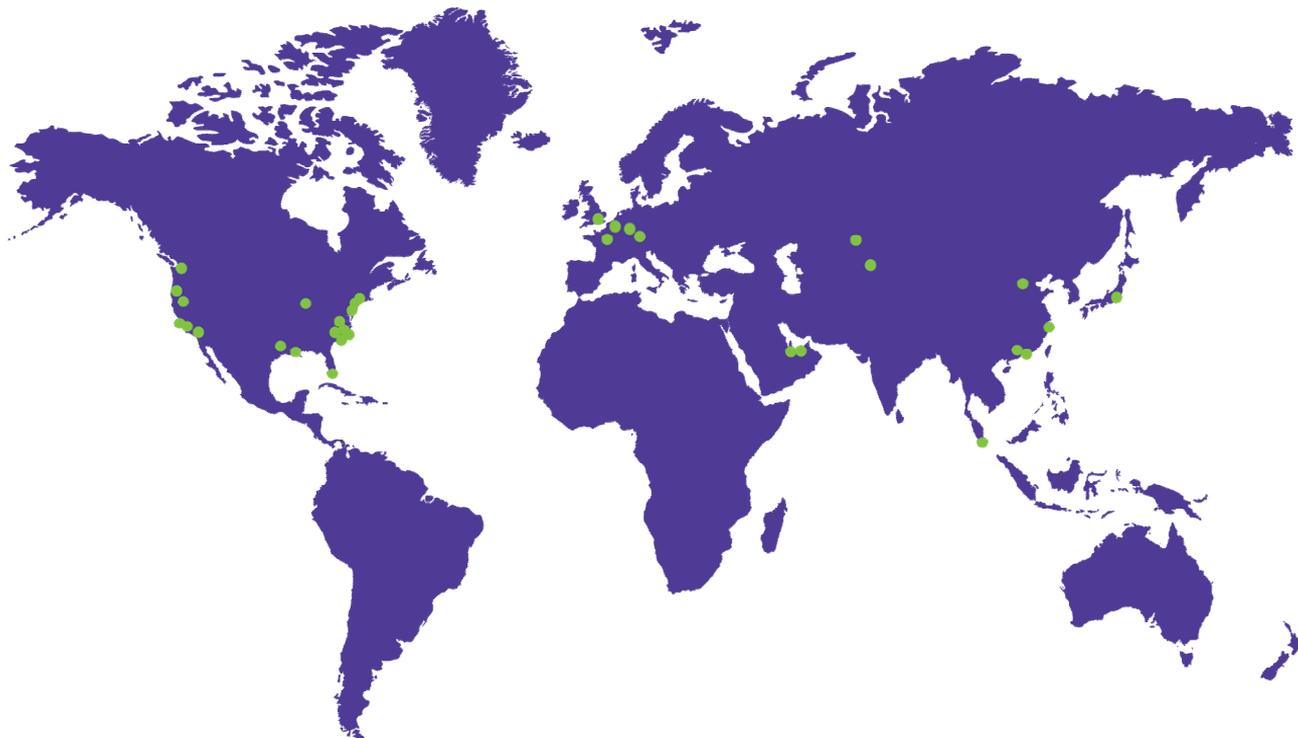
Andy Dietrick advises clients in all aspects of intellectual property, primarily in design and utility patent prosecution, due diligence and clearance, and licensing. He counsels clients in a wide range of technological fields, including drug delivery, biomedical devices, mechanical arts, electronics, military equipment, sporting equipment, smart devices, consumer products, software, and automotive industries. His clients range from early-stage startups to Fortune 100 companies.

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