



How IP and Technology are Gaining Importance in M&A

NOVEMBER 2020

Mark Stoneman
Courtney Jackson
Scott Galt
Deborah Norman

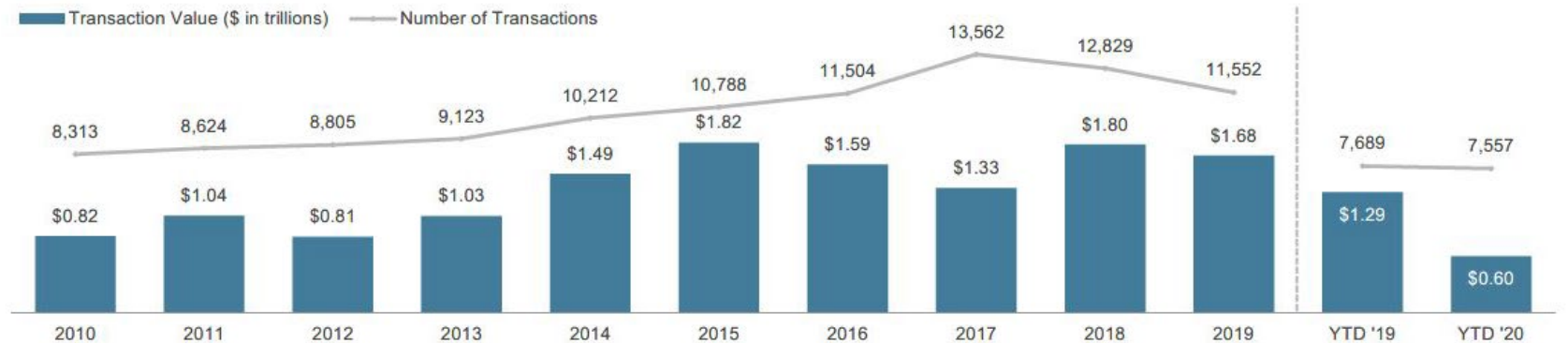
Always exceed expectations through teamwork and excellent client service.

© 2020 Armstrong Teasdale LLP

Current Trends—COVID Dip

- 2018 and 2019 were robust years for M&A Activity
- 2020 activity meaningfully impaired by COVID-19

U.S. M&A Volume

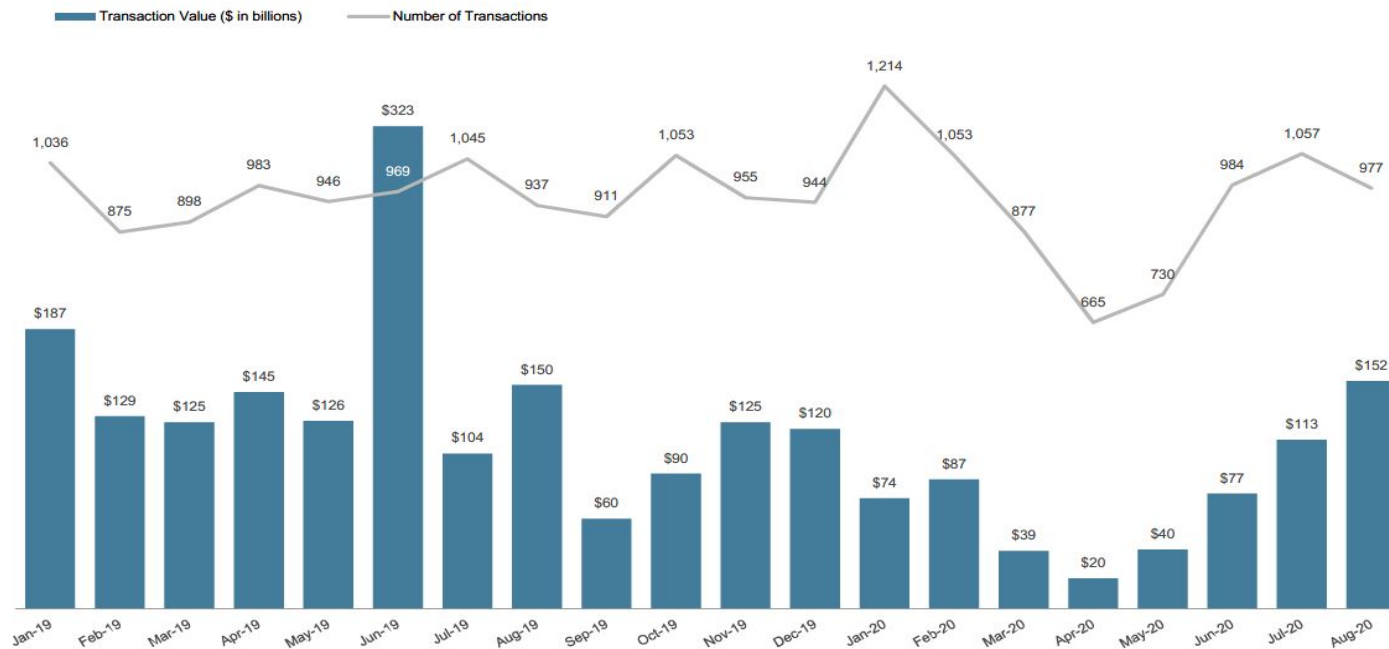


Source: Refinitiv (formerly known as Thomson Reuters), as of August 31, 2020.

Note: Includes minority equity deals, equity carve-outs, exchange offers, open-market repurchases, and deals with undisclosed transaction values.

Current Trends—Is that a “V” Shape?

- Dip on COVID-19 Fears; Spike on Tax Fears



Source: Refinitiv (formerly known as Thomson Reuters), as of August 31, 2020.

Note: Includes minority equity deals, equity carve-outs, exchange offers, open-market repurchases, and deals with undisclosed transaction values.

Current Trends—Ubiquity of RWI

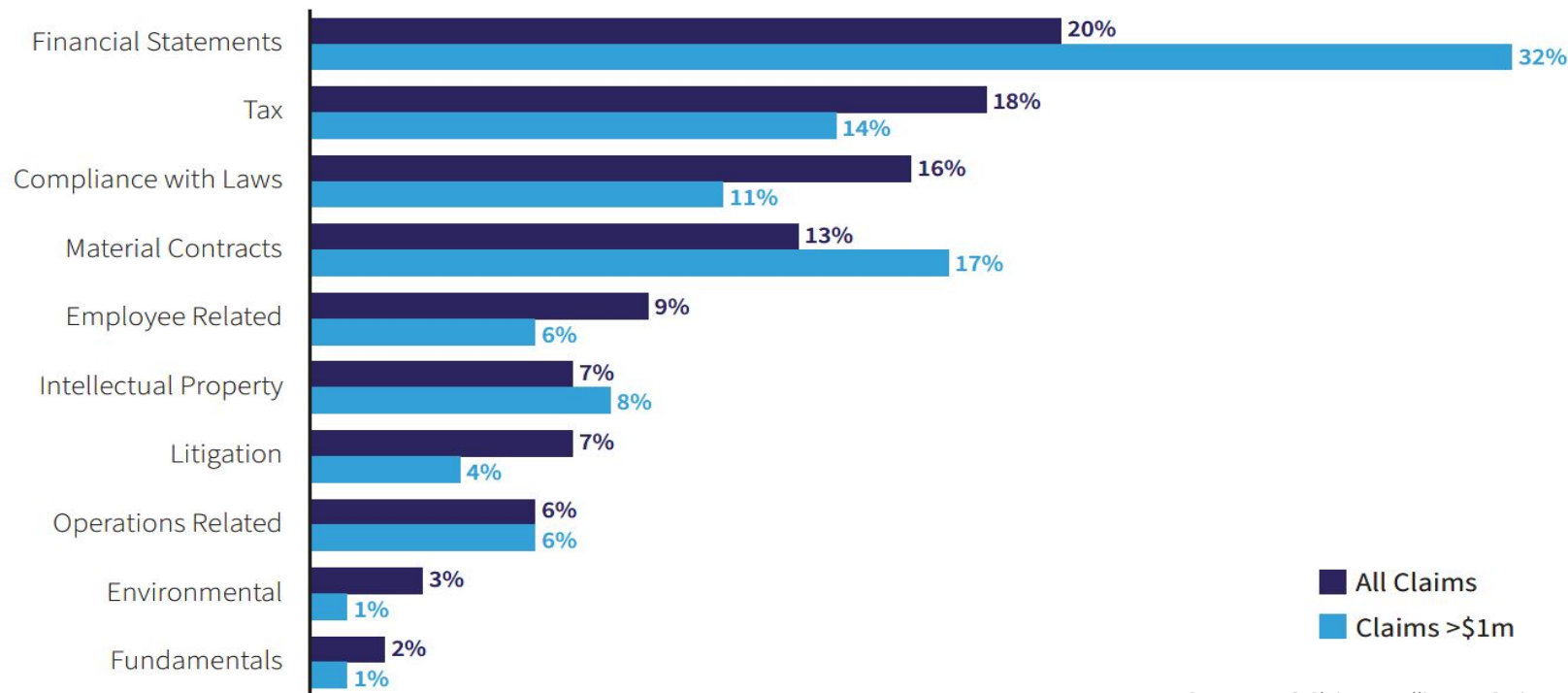
- Representations and Warranties Insurance Continues to Grow

Year	2017	2018	2019	2020
Cumulative Policies Underwritten	2500	3000	4000	5000
Annual Growth		20%	33%	25%

Current Trends—RWI Sensitivity to IP Issues

- IP claims are meaningful in all deals, but particularly significant in deals involving technology

Fig 5 R&W reported incidents by breach type All Claims vs Claims >\$1 m

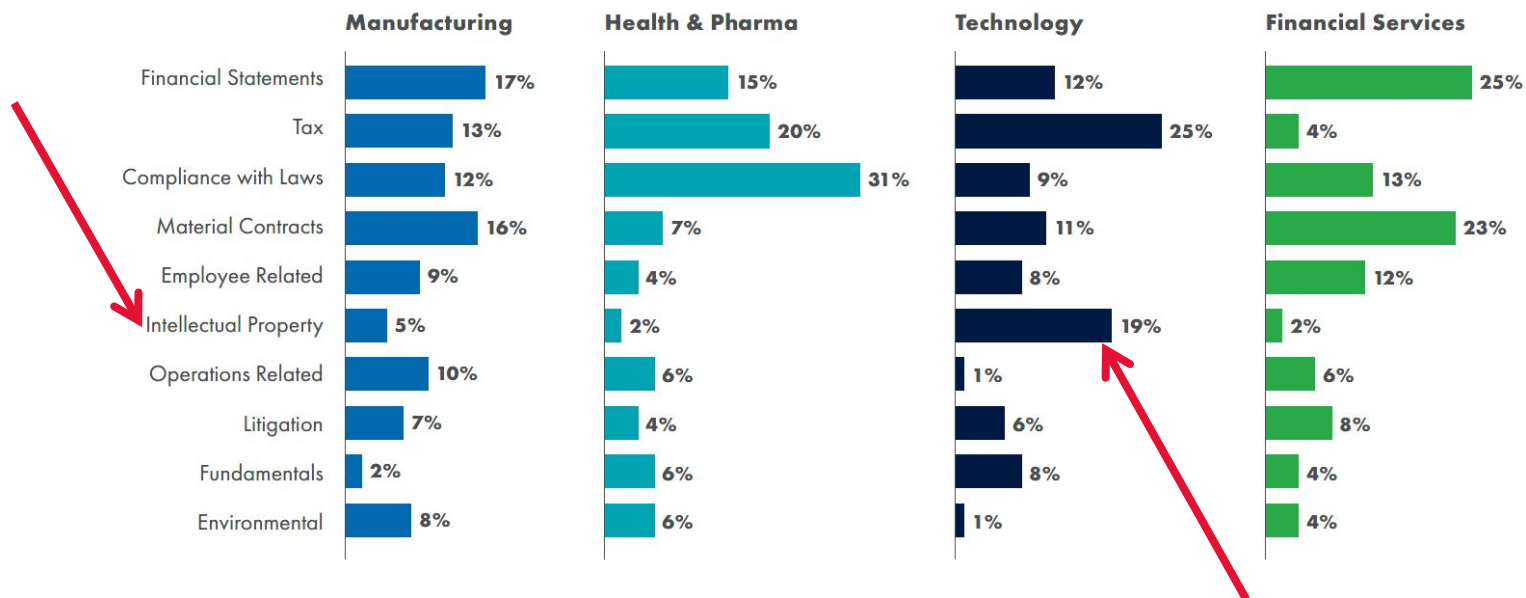


Source: AIG Claims Intelligence Series

Current Trends—Hypersensitive in Tech Deals

- IP claims are relatively more significant in technology deals

Fig 5 R&W Reported Incidents by Breach Type and Industry



Source: AIG Global M&A Claims Study 2018

Current Trends—Tech is Not Just for Tech Companies

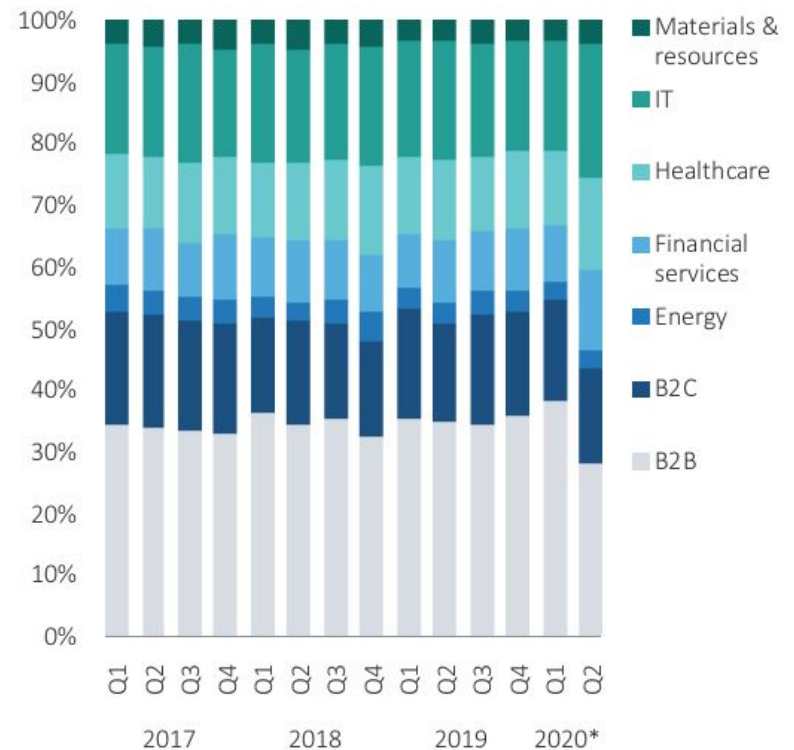
■ Direct Impact

- Information Technology deals are a substantial part of the market

■ Indirect Impact

- Industry and legal trends drive non-tech companies to invest in tech
- Numerous examples of non-tech acquisitions that have a significant tech component

M&A (#) by sector



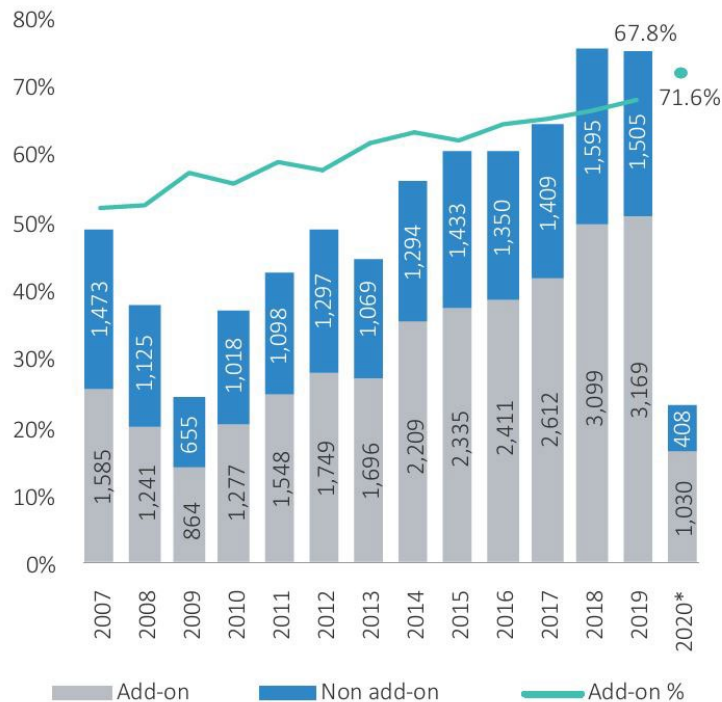
Source: PitchBook | Geography: North America
*As of June 30, 2020

Current Trends—Drivers of Tech Investment

- Before COVID-19, low unemployment rates drove the need to increase productivity through technology
- Investment in technology is quickly becoming a part of the private equity toolkit
- Increased regulation of data protection and heightened cybersecurity risks drive investment
 - Survey reflects that 47% of middle market businesses report illegal attempts to access data or systems
- Incumbents in non-tech businesses need to invest in technology to avoid disruption

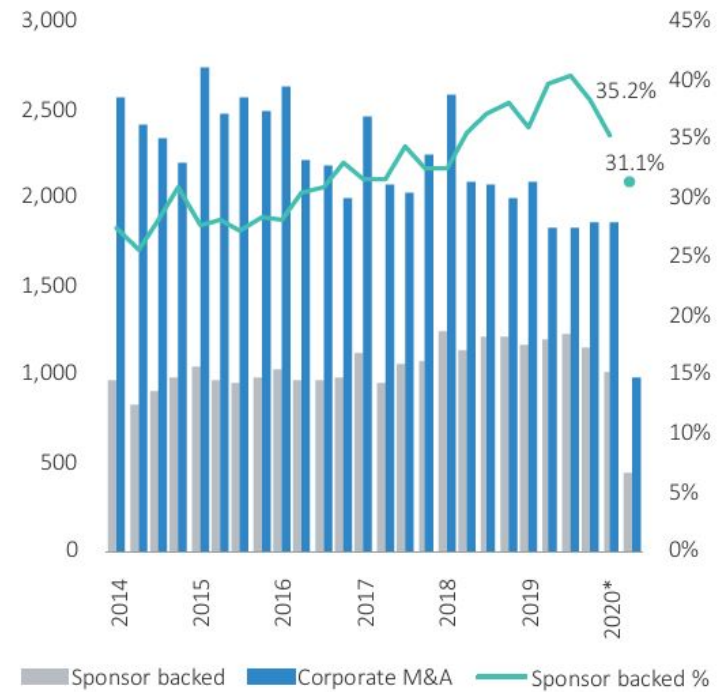
Current Trends—Add-ons by PE Investors Drive Activity Even at Smaller Businesses

Add-ons as proportion (#) of overall PE deals



Source: PitchBook | Geography: North America
*As of June 30, 2020

Sponsor-backed M&A as proportion of overall M&A



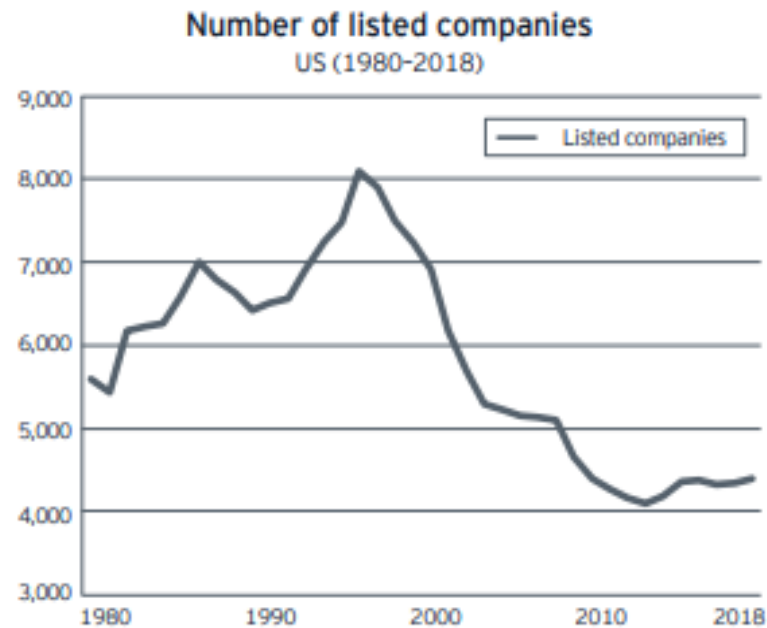
Source: PitchBook | Geography: North America
*As of June 30, 2020

Current Trends—Rise of PE is a Mega-Trend

- **More capital to private funds as compared to public markets**
 - A recent E&Y report described this as one of the most profound shifts in capital markets since the growth of public markets in the 19th century
 - In fact in 2017, new capital raised from private markets exceeded capital raised in public markets for the first time in the U.S.
- **The nature and extent of this change is demonstrated by the following charts**

Current Trends—Fewer, but Larger, Public Companies

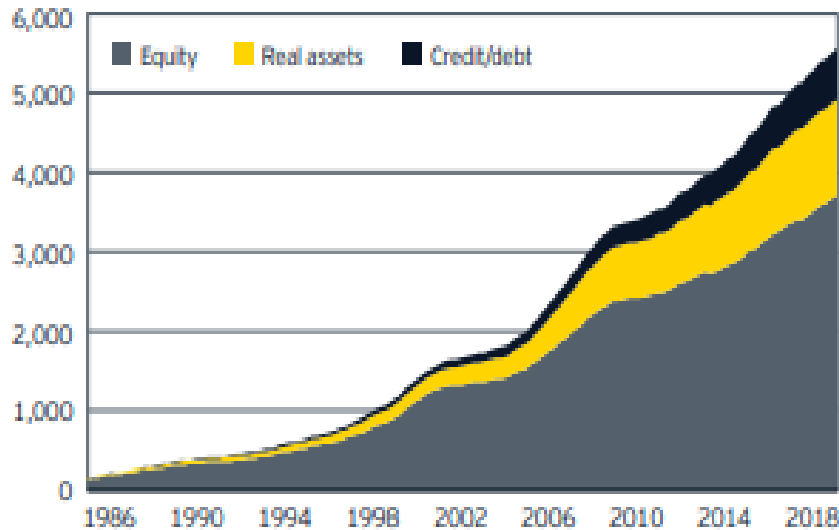
The public markets are increasingly dominated by fewer, larger companies: the number of US-listed companies and their market capitalization as a percentage of GDP.



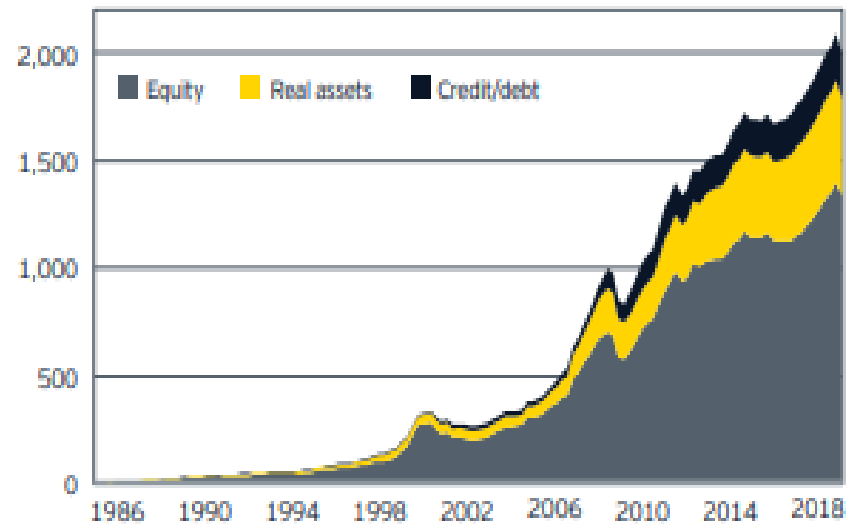
Source: Bank's World Development Indicators (WDI) database

Current Trends—More Funds with More Money

Number of active private funds



Private funds' total net asset value (NAV) (in US\$b)



Source: number of active private equity, private real estate and private debt funds from the Burgiss Manager Universe through September 30, 2018; private equity, private real estate and private debt fund NAVs from the Burgiss Manager Universe through September 30, 2018.

Current Trends—What Does it Mean?

- Although COVID-19 has created a dip in activity, tax fears and money that needs to be invested will create deal activity
- The presence of RWI and the focus on IP claims (particularly in tech deals), drives the need to focus on IP issues
 - The involvement of RWI often results in late-breaking diligence concerns that must be addressed both by buyer and seller (often in light of an actual or threatened exclusion from coverage)
- Many non-tech companies increasingly have meaningful tech/IP investments
- The rise of PE and their emphasis on tech will increase this trend, as their competitors (increasingly, everyone is a competitor) will need to match tech investments
- All of this puts increased pressure on the significance of how IP issues are covered in your transactions

IP Issues

Courtney Jackson / Deborah Norman

IP as a Driver in Deals – Key Considerations

▪ Type of Transaction

- Asset purchase
- Stock sale
- Bankruptcy

▪ The Completeness of the Portfolio

- Conduct ownership searches
- Conduct audit of the target's website / marketing materials
- Consult with foreign counsel, if necessary
- Review upcoming deadlines and recent filings for errors

IP as a Driver in Deals – Key Considerations

- **Strength of the House Mark**
 - Conduct a comprehensive search
- **Chain of Title / Ownership Issues**
 - Assignment recordals or corrective assignments
 - Release of security interests
- **IP Agreements and IP Provisions in Contracts**
 - Change of control
 - Representations and Warranties
 - Exclusivity / Noncompete
 - Ownership of IP (NDA's or joint development agreements)

IP as a Driver in Deals – Key Considerations

▪ Litigation and Disputes

- Cease and desists
- TTAB and PTAB proceedings
- UDRP proceedings
- Court filings and decisions
- Settlement, consent and coexistence agreements

IP as a Driver in Deals – Key Considerations

▪ Non-Traditional IP

- IT / software
- Customs recordals
- Domain names
- Website Terms and Conditions, and Privacy Policy
- Social media accounts
- Marketing collateral

Industry-Specific Considerations

- **Media / Entertainment**

- Duration of copyright protection
- Ownership of characters, film, photographs, scripts

- **Software**

- Ownership of prior versions of programs

- **Biotech / Pharma**

- Pending FDA approvals
- Ownership of patents / assignment of rights in employment agreements

Post-Closing Checklist

- Record security interest releases and assignments with appropriate government agencies
- Update ownership with domain name registrars and Customs bureaus
- Create new passwords for social media accounts
- Alert foreign counsel

Data Privacy Issues

Scott Galt / Deborah Norman

Data Privacy Issues in the M&A Context

▪ Threshold Considerations

- Will expansion into new industries or geographic regions bring new categories of personal data and thus new obligations to the fore?
 - Is personal data a primary asset of the transaction?
 - Does the transaction result in new “buckets” of personal data with which the acquirer must grapple?
 - Does the transaction implicate highly regulated sectors? Does it implicate children as consumers?
 - Does it result in greater compliance obligations because of a greater volume of personal data, new “buckets” of personal data, or a new jurisdictions implicated by the personal data being processed?
- Do new products / technologies acquired bring with them new data privacy and security burdens and obligations?
 - Does it result in greater compliance obligations because of the advent of new business models, new “buckets”, new geographical scope?
- How does this alter the risk profile of the target and then your company post-acquisition?
 - Will greater notice and consent obligations be required? More rigorous data privacy and security protocols need to be deployed? Will greater risk mitigation strategies need to be deployed post-acquisition.

Data Privacy and Security Issues

■ Key Items of Due Diligence

- Examination of a target's technology infrastructure and privacy and data security policies to help you understand how the target collects personal data, uses/processes personal data, stores personal data, protects personal data, and retains personal data.
- Data Map / Record of Processing Activities.
 - Critical pieces of information that show all inflows/outflows of the target's personal data and also help you appreciate the purposes of processing personal data and what security protocols exist around the same.
- Privacy Policies (Externally and Internally Facing), Notices and Consents.
- Information Retention/Destruction and Business Continuity Policies.
- Gap Assessments / Data Privacy Impact Assessments / Audits.
- Technical, Administrative and Physical Controls.

Data Privacy and Security Issues

▪ Contractual Issues – the agreement

- Representations and warranties and risk allocation in connection with:
 - data privacy protocols;
 - data security / data breach protocols;
 - cross-board data transfers; and
 - compliance with other jurisdictions' laws.
- Unique dispute resolution provisions.

▪ Contractual Issues – other agreements

- Vendor management.
 - Data processing agreements and addenda.
- Foreign subsidiary management.
 - Data transfer agreements.

Data Privacy and Security Issues

▪ “Hot” Considerations

- Schrems II Case

- We are in a déjà vu moment. Similar to where we were in the wake of Schrems I, when the US-EU Safe Harbor was invalidated on Oct. 6, 2015 by the European Court of Justice and companies in these two jurisdictions scrambled to settle upon a valid cross-border data transfer mechanism so they could continue to legally conduct transatlantic business that implicated personal data.
- Just like they were five short years ago, the 5,000+ participants in the Privacy Shield are scrambling to settle upon legally recognized cross-border data transfer mechanism.

Data Privacy and Security Issues

▪ Schrems II Case (continued)

- So what do we mean by a legally recognized cross-border data transfer mechanism?
 - We mean a data transfer mechanism deemed valid under EU law, or more specifically, the General Data Protection Regulation (GDPR). This is the EU's data privacy regime which is directly applicable in all EU Member States and the three additional countries that make up the European Economic Area.
 - My focus is on Chapter 5 of the GDPR - that is, transfers of personal data out of the European Economic Area to third countries, such as the United States.
 - There are multiple legally recognized mechanisms for transfers of data out of the EEA to countries that do not substantively meet the standards of EU privacy laws (inadequate).

Data Privacy and Security Issues

▪ Schrems II Case (continued)

- What are the multiple mechanisms?
 - Countries subject to an adequacy determination by the European Commission as contemplated by Article 45 of the GDPR (Argentina, Canada, Israel, New Zealand, Switzerland, Uruguay, and such epicenters of commerce as Guernsey, Jersey, and the Isle of Man).
 - Privacy Shield (defunct).
 - SCCs.
 - BCRs.
 - Special Approved Contract Terms.
 - Derogations.



Mark Stoneman

ARMSTRONG TEASDALE
314.552.6629
mstoneman@atllp.com



Courtney Jackson

ARMSTRONG TEASDALE
314.259.4784
cjackson@atllp.com



Scott Galt

ARMSTRONG TEASDALE
314.259.4709
sgalt@atllp.com

Deborah Norman

CALERES
314.854.2279
dlnorman@caleres.com

This presentation does not constitute legal advice or a legal opinion and is not an adequate substitute for the advice of counsel.