



Intellectual Property Due Diligence in Business Transactions

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Speakers



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Overview

- 1. Introduction to IP Due Diligence**
- 2. Stages of IP Due Diligence**
- 3. Trademark & Copyright Considerations and Common Pitfalls**
- 4. Key Negotiating Points & Drafting Tips in IP Transactions**
- 5. Key Takeaways – DO's of IP Due Diligence**
- 6. Questions**

Introduction to IP Due Diligence

Intellectual property due diligence is a legal exercise wherein IP counsel defines, examines, and analyzes an IP portfolio of a company prior to the closure of a business transaction

- **Who**
 - The business and legal counsel of target and buyer
- **What**
 - Traditional and non-traditional IP assets
- **Where**
 - Geographic scope of transaction
- **When**
 - Onset of negotiations; more often pre-closure of the transaction
- **How**
 - Phased approach





Who is Who

The term “**buyer**” refers to:

- The purchaser or acquiror

The term “**seller**” refers to:

- the seller in an asset acquisition;
- the stockholders in a stock acquisition; or
- the target company or the target company's stockholders (depending on the context) in a merger.

The term “**target**” refers to:

- the business or assets to be acquired, in an asset acquisition; or
- the target company (and its subsidiaries, if applicable) to be acquired, in a stock acquisition or merger.

Buyer's counsel's inquiry:

- Any unacceptable risks/deal breakers?
- Any risks/problems that would drive the price down?

Seller's / Target's counsel's objectives:

- Help Target explain IP Rights & disclose material risks
- Demonstrate minimal infringement risks to Buyer
- Establish high value of IP to maximize deal value

Both: Avoid creating later-arising problems!

Buyer



Seller

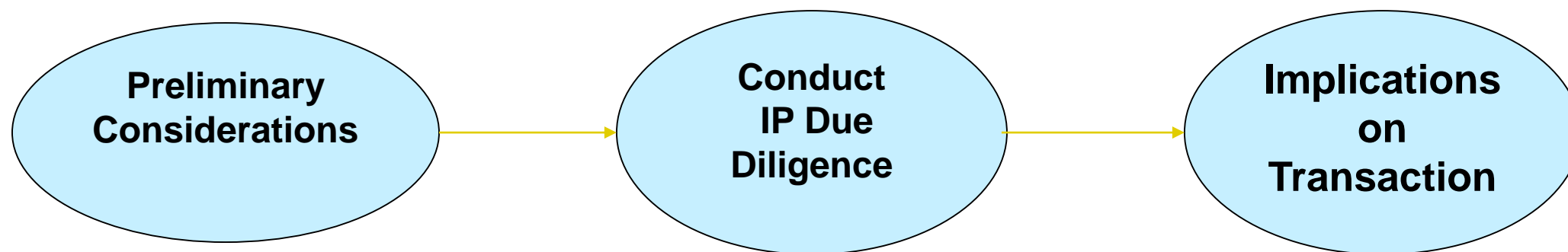


A Cautionary Tale!

- 1998 acquisition of *Rolls Royce* assets by German car maker *Volkswagen*



Stages of IP Due Diligence





Preliminary Considerations

- Business goals identified
- Transaction structure and nature of Buyer
- Nature of Target's business
- Materiality of IP
- Who to Ask for What
- Process constraints



Preliminary Considerations

- Transaction Structure
 - Asset purchase
 - Stock purchase
 - Carve-Out
- Identity of Seller (Target)
 - Holding company
 - Parent company
- Nature of Buyer
 - Strategic
 - Private Equity



Preliminary Considerations

- Nature of Target's Business
 - Trademark
 - Copyright
 - Patent
 - Software / IT
 - Data Privacy
 - Regulatory

Preliminary Considerations

- Materiality of IP
 - Revenue from products or services covered by IP
 - Royalties or license fees from licensing the IP
 - Competitive advantage provided by IP
 - Lack of commercially available alternatives for IP
 - Replacement cost of the IP
 - International presence





Preliminary Considerations

- Who to ask for what
- Process constraints



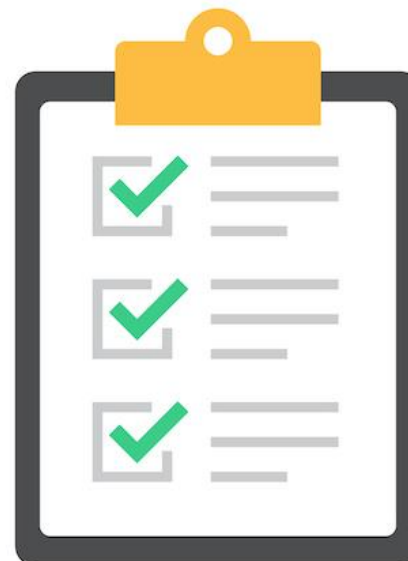


Conduct IP Due Diligence

- Create a checklist
- Conduct review of public information
- Create IP due diligence request list
- Review documents and responses to diligence requests

Conduct IP Due Diligence

- Checklist Categories*
 - Identify all IP assets
 - Ownership and Status of IP
 - Development and Acquisition of IP
 - IP-Related Agreements
 - IP Protection and Enforcement
 - IP Related Disputes
 - Software and IT Systems
 - Websites and Social Media
 - Privacy and Data Security



*Categories are dependent upon type of transaction and IP assets at issue- not all categories required

Conduct IP Due Diligence

- Establish a due diligence team, timeline, and document management protocols
- Conduct corporate structure search to understand family tree
- Compile initial list of Target's IP assets through publicly available resources
 - USPTO
 - US Copyright Office
 - Regulatory Filings - FDA / SEC
 - Litigation Search
 - Foreign Databases
- Newsworthy announcements? Conduct analysis of news reports and litigation status for any potential issues, impending litigation, licenses and enforcement efforts

Conduct IP Due Diligence

- IP Due Diligence Requests List
 - List of all types of IP assets owned or used by Target
 - Request information and documents to understand how the target's IP has been developed or acquired
 - Request information and documents to confirm the target's ownership of any IP developed by or with, or acquired from, employees, consultants or independent contractors, or other third parties
 - Request copies of all material license agreements and all other material IP-related agreements to which the target is a party
 - Request information and documents regarding the target's approach to IP protection and enforcement, focusing on the types of IP that may be material to the target's business
 - Request information and documents (including copies of relevant pleadings, decisions or orders, and correspondence) regarding any pending, threatened, or potential litigation, cease and desist letters and registry proceedings concerning IP assets
 - Request information and documents to evaluate the target's use of websites and social media

Conduct IP Due Diligence

- Reviewing the results
 - Accuracy of disclosed information
 - Gaps in chain of title
 - Encumbrances
 - How has the IP has been developed or acquired
 - Completion of IP assignments transfer of ownership
 - Conditions on use / exploitation
 - Protection and enforcement issues
 - Litigation
 - Unique industry considerations

Will any material IP rights acquired to be adversely affected by transaction?

Trademark Due Diligence Considerations

Through trademark due diligence buyer's counsel typically seeks to:

- Confirm ownership
- Confirm scope of IP
- Investigate validity
- Infringement risks / enforceability



Trademark Due Diligence - Ownership

- Identify the target's trademarks and confirm ownership
 - Owned marks
 - Licensed marks
- Registered marks
 - Confirm chain of title
 - Identify any security interests or other encumbrances
- Unregistered marks
 - UCC searches
 - Information from the target will be essential

Trademark Due Diligence - Scope

- Consider the target's actual use of trademarks
 - What is being used?
 - Where are the marks used?
- What do the target's marks and licensed marks cover?
- Identify any gaps in trademark protection
- Evaluate the ability to expand use and registration of the trademarks according to the buyer's business plans
 - Contractual limitations
 - Legal limitations



Trademark Due Diligence - Validity

- Verify the validity of the target's trademarks
- Investigate prosecution history
- Representations and warranties

Trademark Due Diligence – Infringement Risks / Enforceability

- Review third-party challenges to the target's marks based on infringement, dilution, or unfair competition
- Analyze the enforceability of the trademarks against third parties
 - Brand misuse
 - Policing efforts
- Consider conducting availability searches



Trademark Specific Due Diligence Requests

- The Target's trademark and domain name registrations
- Trademarks used by the Target
- Social media handles
- Allegations of infringement and challenges to trademarks
- Litigation, opposition, and cancellation documents
- Security interests
- License agreements, settlement agreements, coexistence agreements
- Materials showing use of the trademarks
- Trademark use policies and brand identity guidelines
- Customs Recordations
- Trademark search reports and opinions

Do your own independent research!

Common Pitfalls - Trademark Due Diligence

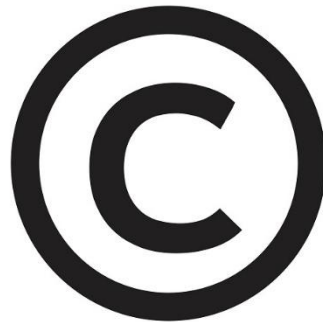
- Ownership and chain of title issues – trademark maintenance
 - USPTO is very particular
 - Errors in filings can jeopardize validity of registrations
 - Confirm name in which maintenance filings were made
 - Requires review of prosecution history
- Old unreleased security interests
 - Perfected with UCC filings
 - USPTO recordations of security interests raise questions

Common Pitfalls – Trademark Due Diligence

- Coexistence and Consent Agreements
 - Limitations on expansion
 - Often omitted from diligence data rooms
- License Agreements
 - Assignment and change of control restrictions
 - Commercial terms reflect outdated business model
- Distribution Agreements
 - Often contain trademark provisions
 - Sometimes not identified as “IP” agreements

Copyright Considerations

- Ownership, validity, and enforceability of the copyrights
- Ability for buyer to use the copyrights
- Infringement risks posed by the copyrights



Copyright Considerations

- Typically, a lower priority depending on industry
- Copyrights are mostly unregistered
 - Public records often of limited utility
 - Key assets may be intentionally unregistered
 - Foreign registration unusual
- Copyright exists when original work of authorship is fixed in tangible media
- Key distinction between “all copyrights” and “registered copyrights”
- Consider what is important in the transaction

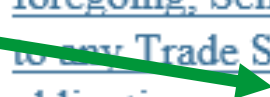
Common Pitfalls – Copyright Due Diligence

- Be careful about what to request
 - Registered copyrights too narrow
 - “Material unregistered copyrights / works of authorship”
- Who developed key copyrightable IP assets?
 - Contractor / consultant agreements
 - “Works made for hire” confusion
 - Joint ownership issues
- Exclusive licenses and assignments must be in writing

Common Pitfalls – Copyright Due Diligence

- **SAMPLE MARKUP: PRO-BUYER**

(d) Protection of Intellectual Property Assets. Seller has taken all reasonable and necessary steps to maintain and protect the Intellectual Property Assets and to preserve the confidentiality and value of all Trade Secrets used in the Business. Without limiting the foregoing, Seller has entered into binding written Contracts with: (i) each Person having access to any Trade Secrets used in the Business containing confidentiality and non-disclosure obligations; and (ii) each current and former employee and independent contractor who was involved in the invention, creation, or development of any Intellectual Property Assets during the course of employment or engagement with Seller pursuant to which such employee or independent contractor acknowledges Seller's ownership of such Intellectual Property and grants to Seller a present, irrevocable, and enforceable assignment of any ownership interest such employee or independent contractor may have in or to such Intellectual Property.





Common Pitfalls – Copyright Due Diligence

- Key works about to enter public domain
- Third-party statutory termination rights for transfers or licenses of copyrights



Key Negotiating Points & Drafting Tips in IP Transactions

- Purchase Price
- IP Definitions
- Representations & Warranties
- Indemnification Clauses

SAMPLE MARKUP: PRO-BUYER

"Intellectual Property" means any and all ~~of the following~~ rights ~~protectable~~ arising under applicable Law in any of the following in any jurisdiction throughout the world: (a) patents and patent applications of any kind, including provisional, divisional, continuations, continuations-in-part, substitutions, reissues, renewals, reexaminations, extensions, or restorations of any of the foregoing, and other similar Governmental Authority-issued indicia of invention ownership; (b) copyrights and copyrightable works, whether published or unpublished, and all registrations and applications for registration thereof; (c) trademarks, service marks, ~~and~~ logos, slogans, trade dress, trade names, acronyms, tag-lines, and similar indicia of source or origin, whether registered or unregistered (collectively, "Trademarks"), and all registrations and applications for registration thereof; ~~and~~; (d) Internet domain name registrations, social media account names or handles, and other digital identifiers, all associated web addresses, URLs, websites and web pages, social media pages, and all content and data thereon, and the goodwill connected with the use of and symbolized by any of the foregoing in (c) or (d); ~~(d) Internet domain name registrations;~~ (e) trade secrets; ~~and~~ ~~(f)~~ know-how, inventions and invention disclosures (whether or not patented or patentable and whether or not reduced to practice), ideas, discoveries, improvements, technology, technical information, data, databases, data compilations and collections, tools, methods, processes, formulae, strategies, prototypes, techniques, plans, drawings, blue prints, schematics, flow charts, models, business information, customer and supplier lists and records, pricing and cost information, financial, sales, and marketing plans and proposals, and all other confidential or proprietary information (collectively, "Trade Secrets"); (f) computer programs, operating systems, applications, firmware, and other code, including all source code, object code, application programming interfaces, data files, databases, protocols, specifications, and other documentation thereof (collectively, "Software"); and (g) other intellectual property and related proprietary rights.

SAMPLE MARKUP: PRO-SELLER

"Intellectual Property" means any and all of the following rights protectable arising under applicable Law ~~in any of the following~~ in any jurisdiction throughout the world: (a) patents and patent applications ~~of any kind, including provisional, divisional, continuations, continuations in part, substitutions, reissues, renewals, reexaminations, extensions, or restorations of any of the foregoing, and other similar Governmental Authority issued indicia of invention ownership~~; (b) copyrights ~~and copyrightable works, whether published or unpublished,~~ and all registrations and applications for registration thereof; (c) trademarks and; service marks, ~~and logos, slogans, trade dress, trade names, acronyms, tag lines, and similar indicia of source or origin,~~ whether registered or unregistered (collectively, "Trademarks"), and all registrations and applications for registration thereof; (d) Internet domain name registrations, ~~social media account names or handles, and other digital identifiers, all associated web addresses, URLs, websites and web pages, social media pages, and all content and data thereon,~~ and the goodwill connected with the use of and symbolized by any of the foregoing in (c) or (d); and (e) trade information that derives its economic value from being kept secrets, ~~know how, inventions and invention disclosures (whether or not patented or patentable and whether or not reduced to practice), ideas, discoveries, improvements, technology, technical information, data, databases, data compilations and collections, tools, methods, processes, formulae, strategies, prototypes, techniques, plans, drawings, blue prints, schematics, flow charts, models, business information, customer and supplier lists and records, pricing and cost information, financial, sales, and marketing plans and proposals, and all other confidential or proprietary information (collectively, "Trade Secrets");~~ (f) computer programs, operating systems, applications, firmware, and other code, including all source code, object code, application programming interfaces, data files, databases, protocols, specifications, and other documentation thereof (collectively, "Software"); and (g) other intellectual property and related proprietary rights.

SAMPLE MARKUP: PRO-BUYER

"Intellectual Property Agreements" means all ~~licenses or sublicenses of~~ Contracts relating to Intellectual Property to which Seller is a party or by which it is bound in connection with the Business or the Intellectual Property Assets, including all licenses or sublicenses, development or co-development agreements, assignments, consent to use agreements, settlements, coexistence agreements, covenants not to sue, waivers, releases, and permissions.

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SAMPLE MARKUP: PRO-BUYER

(c) Validity and Enforceability. All of the Intellectual Property Assets are subsisting, valid and enforceable, and in full force and effect. All assignments and other instruments necessary to establish, record, and perfect Seller's ownership of the Registered Intellectual Property Assets have been validly executed, delivered, and filed with the relevant Governmental Authorities.

SAMPLE MARKUP: PRO-SELLER

(c) Validity and Enforceability. All of the Registered Intellectual Property Assets are subsisting, ~~have not been held in~~invalid ~~and or un~~enforceable ~~by any Governmental Authority~~, and ~~are~~in full force and effect. ~~All assignments and other instruments necessary to establish, record, and perfect Seller's ownership of the Registered Intellectual Property Assets have been validly executed, delivered, and filed with the relevant Governmental Authorities.~~

(e) Non-Infringement. For the past three (3) years, except ~~Except~~ as set forth in Section [NUMBER](~~ee~~) of the Disclosure Schedules, ~~to Seller's Knowledge~~: (i) the conduct of the Business ~~as currently conducted does, including the manufacture, use, sale, offer for sale, or importation of any product, use of any process, or provision of any service of the Business, does~~ not infringe, misappropriate, dilute, or otherwise violate, and has not infringed, misappropriated, diluted or otherwise violated, the Intellectual Property of any Person; and (ii) to Seller's Knowledge, no Person is infringing, misappropriating, diluting, or otherwise violating any Intellectual Property Assets. ~~Notwithstanding anything to the contrary in this Agreement, this Section [NUMBER](e) constitutes the sole representation and warranty of the Seller under this Agreement with respect to any actual or alleged infringement, misappropriation, or other violation of Intellectual Property.~~

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SAMPLE MARKUP: PRO-SELLER

(e) Non-Infringement. For the past three (3) years, Except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect: (i) the conduct of the Business as currently conducted, ~~including the manufacture, use, sale, offer for sale, or importation of any product, use of any process, or provision of any service of the Business,~~ does not infringe, or misappropriate, dilute, or otherwise violate, and has not infringed, misappropriated, diluted or otherwise violated, the Intellectual Property of any Person; (ii) to Seller's Knowledge, Seller has not received any written notice or claim that it is infringing or misappropriating the Intellectual Property of any Person; and (iii) to Seller's Knowledge, no Person is infringing, misappropriating, ~~diluting~~, or otherwise violating any Intellectual Property Assets. Notwithstanding anything to the contrary in this Agreement, this Section [NUMBER](e) constitutes the sole representation and warranty of the Seller under this Agreement with respect to any actual or alleged infringement, misappropriation, or other violation of Intellectual Property.



Key Takeaways – DO's of Due Diligence

- Start early
- Align business objectives to scope of diligence efforts
- Tailor requests and analysis to the business at hand
- Use information learned in due diligence to improve negotiating position
- Review applications and registrations for upcoming deadlines
- Make corrective filings before closing

