

INTELLECTUAL PROPERTY ISSUES

Due Diligence Considerations

Negotiated Corporate Acquisitions
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Goals of IP Due Diligence

BUYER

In general:

- Discover and analyze all pertinent business and legal facts surrounding the IP assets to be examined and communicate these facts to the relevant party.

More specifically:

- Identify the technology and IP assets to be examined.
- Understand and verify ownership of and rights in / to the assets.
- Understand third party rights, if any, in / to the assets.
- Determine any facts which may affect the value of the assets.
- Eliminate material unexpected post-closing risks re: the assets.
- Identify any IP rights and assets which are needed post-closing, but which are not included in the assets being examined.

SELLER

In general:

- Gather, organize and make available to buyer all relevant information about your company's technology and IP assets.

Things to Keep in Mind:

- A thorough and organized presentation can provide comfort to the buyer's counsel, whose job is to look for potential problems.
- Packaging technology and IP assets in an attractive way can provide a sense of increased value for the buyer.
- Identifying issues before the buyer has a chance to do so provides opportunity to address them and/or solidify negotiation positions.
- Gathering detailed information and identifying personnel closest to the company's technology and IP assets will put you in a position to answer the buyer's questions in a meaningful way – allowing the due diligence to proceed more quickly.

The Due Diligence Process

- Six steps in the basic IP due diligence process:
 - Understanding the client's objectives regarding the due diligence process (both substantively and financially).
 - Identifying the scope of the review to be undertaken.
 - Developing a plan for accomplishing the due diligence investigation.
 - Executing the due diligence.
 - Communicating the due diligence findings to the relevant parties.
 - Implementing any necessary remedial actions, such as:
 - Negotiating changes to pricing or other deal points;
 - Negotiating protective reps / warrants / indemnities;
 - Obtaining consents for / amending / canceling license agreements;
 - Correcting defects in chains of title;
 - Addressing potential infringement.

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Patent Due Diligence

- Information that Seller Should Provide:
 - Listing of seller's patents, applications, and invention disclosures
 - Determine expiration date for each patent.
 - File histories and copies of invention disclosures
 - Confirm statutory requirements met re: filing and issuance, such as filing / maintenance fees; duty of disclosure; publication.
 - Chain of title records (incl. security interests & other encumbrances)
 - Verify chain of title records at U.S. Patent Office.
 - Confirm that all inventor ownership rights vested in seller.
 - Review all applicable assignments.
 - Listing of all patent assets licensed to / from the seller
 - Review patent license agreements.
 - Records re: any patent litigation / administrative proceedings
 - Copies of any patent demand letters sent / received by seller

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Patent Due Diligence

- More Detailed Review by Buyer:
 - Study scope and strength of patent claims / possible infringement.
 - Identify possible “blocking” patents owned by third parties.
 - Determine whether patent has been “misused” by e.g., tying, etc.
- Likely Questions from the Buyer:
 - What products / services / technologies do each of the patents cover?
 - How are those products / services / technologies commercialized?
 - Do competitors have patents in the same space? How monitored?
 - What is seller’s patent strategy?
 - Can we see any non-infringement / invalidity opinions?

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Trademark Due Diligence

- Information that Seller Should Provide:
 - Listing of seller’s registered and unregistered trademarks
 - Identify trademarks used by seller for which no formal protection sought.
 - Assess alleged dates of TM adoption; review evidence of use cited to USPTO; etc.
 - File histories
 - Chain of title records (incl. security interests & other encumbrances)
 - Verify chain of title records at U.S. Trademark Office.
 - Conduct searches (as possible) for non-U.S. records.
 - Review all applicable assignments.
 - Representative samples of promotional literature, etc.
 - Listing of all TMs licensed to / from the seller
 - Review TM license agreements.
 - Records re: any TM litigation / administrative proceedings
 - Copies of any TM demand letters sent / received by seller

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Trademark Due Diligence

- More Detailed Review by Buyer:
 - Review packaging, advertising, and products.
 - Assess security interests recorded on trademark records.
 - Consider scope and strength of overall trademark portfolio.
 - Assess best "top-up" strategies post-closing.
 - Evaluate third-party use of seller's marks.
- Likely Questions from the Buyer:
 - What products / services are marketed under seller's brands?
 - How important are TMs to seller's business?
 - What is seller's branding strategy?
 - Can we see any non-infringement / clearance opinions?

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Copyright Due Diligence

- Information that Seller Should Provide:
 - Listing of seller's registered and unregistered copyrights
 - Determine authorship.
 - Evaluate existence of derivative works; review modification history.
 - Chain of title records (incl. security interests & other encumbrances)
 - Verify ownership of seller's copyrights (exclusive rights bundle: reproduction; derivative works; distribution; public performance; public display).
 - Verify chain of title records at U.S. Copyright Office.
 - Review all applicable assignments.
 - Listing of all copyrights licensed to / from the seller
 - Review copyright license agreements.
 - Records re: any copyright litigation / administrative proceedings
 - Copies of any copyright demand letters sent / received by seller

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Copyright Due Diligence

- More Detailed Review by Buyer:
 - Assess security interests recorded on copyright records.
 - Consider scope and strength of overall portfolio.
 - Assess best "top-up" strategies post-closing, including filing formal registration applications for litigation (as applicable).
 - Evaluate third-party use of seller's works.
 - For pre-March 1989 works, determine if formality requirements are met.
- Likely Questions from the Buyer:
 - What is seller's strategy re: seeking copyright registrations?
 - Is seller aware of any unauthorized copying of its proprietary works?
 - Are formality requirements met for any pre-March 1989 works?
 - Is seller in compliance with all software license obligations?
 - Are third party licensees in compliance with seller's license agreements?

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Software Due Diligence

- Information that Seller Should Provide:
 - Listing of all software owned / licensed by seller (including proprietary and open source software)
 - Review applicable software license agreements (proprietary and open source).
 - Determine if seller is in compliance with all license obligations.
 - Open source requirements re: derivatives, distribution, attribution, etc.
 - Confirm that site / seat licenses are accurate and up-to-date.
- Likely Questions from the Buyer:
 - Are third party licensees in compliance with seller's license agreements?
 - Any patent rights expressly or implicitly granted per license?
 - Does source code contain trade secret or is it maintained as such?
 - Is the copyright in seller's software code registered?
 - Is patent protection available?

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Trade Secret Due Diligence

- Information that Seller Should Provide:
 - Listing of all trade secrets maintained by the seller
 - Evaluate “common interest” before asking for disclosure of trade secrets.
 - Copy or description of seller’s trade secret protection policy, if any
 - Evaluate seller’s processes for protecting trade secrets:
 - Non-disclosure agreements.
 - Source code escrows.
 - “Confidential” labels for documents, etc.
 - Physical / network security.
 - Restricted access for employees and visitors.
 - Visitor logs, badges, etc.
 - Anti-reverse engineering protections.
 - Determine relative value of trade secret to buyer; will buyer be able to maintain secrecy?
 - Are patent rights still available?

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