



COUNSEL TO GREAT COMPANIES

# Intellectual Property Issues in M&A Transactions

April 29, 2015

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# Agenda

- IP Due Diligence
- IP Provisions in M&A Agreements
- Post-Signing / Post Closing Considerations

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# IP Due Diligence – Methodology

- Request and Review Information
  - Checklist
- Independent Investigation
  - Patent and Trademark Office, Library of Congress, UCC filings
  - Prior Art Search?
  - Patent Clearance Search?
  - Third Party Claims
  - Technology / Open Source Review
- Interviews

# IP Due Diligence – Purpose

- Purposes of IP diligence
  - Identify the IP that is being acquired
  - Determine ownership / clean up chain of title issues
  - Review agreements for issues
  - Identify infringement concerns (offensive and defensive)
  - Determine issues associated with and value of the IP (typically in terms of competitive advantage)
  - Understand IP/IT/Privacy policies and procedures

# IP Due Diligence – Identify / Value the IP

- Review products and services (existing and being developed)
  - Identify product features that provide a competitive advantage
    - Identify whether such features:
      - Are owned by others (e.g. inbound licenses, product clearance search)
      - Are protected by intellectual property rights
        - Applications, registrations, contractual obligations
      - Can be reversed engineered from a technical and legal perspective?
        - Confidentiality and license agreements may be relevant to this analysis

# IP Due Diligence – Patent Issues

- Do patents cover the features that provide a competitive advantage for the Seller?
  - Strength / Scope of coverage?
  - Validity or enforceability issues?
  - Infringement detection?
  - Any key omissions? Are such omissions (or other invention disclosures) still eligible for protection?
  - Has relevant prior art been properly disclosed?
- Are maintenance and other fees paid?
- Are products properly marked with an appropriate patent notice?

# IP Diligence – Patent Ownership

- A patent is generally owned by the inventor, unless the inventor is obligated to assign the invention
  - Some states impose an obligation on certain categories of individuals to assign inventions to an employer. See *Hewett v. Samsonite Corp.* 507 P.2d 1119 Colo. App. 1973.
  - In some instances the inventor's employer may own a non-transferable "shop right"
- Are any patents co-owned? Under U.S. Law, a co-owner may:
  - exercise rights under the patent without obligation to the other co-owners; and
  - assign its interest or grant licenses without accounting for profits.

# IP Diligence – Employee and Contractor Assignment Language

*Using improper assignment language will not transfer rights without further action*

- Present assignment language transfers rights
  - “will assign and do[es] hereby assign to...” *Stanford v. Roche*, 563 U.S. \_\_\_\_ (2011)
  - "hereby conveys, transfers and assigns" (*Speedplay v. Bebob* (Fed. Cir. 2000))
  - "agrees to and does hereby grant and assign" (*DBB Techs v. MLB Advanced Media* (Fed. Cir. 2008))
- Promises to assign do not cause an immediate transfer
  - “I agree to assign”. *Stanford v. Roche*, 563 U.S. \_\_\_\_ (2011)
  - "shall, or shall cause . . . to Transfer" (*Abraxis Bioscience v. Navinta* (Fed. Cir. 2010))
  - "will be assigned" (*Arachnid v. Merit Indus.* (Fed. Cir. 1991))



# IP Due Diligence – Trademarks

- Federal Trademark Registrations
  - Is the proper owner named? Prior assignments recorded?
  - Do registrations properly cover relevant trademark classes?
  - Have all renewals been timely and properly filed?
- Any pending opposition / cancellation proceedings?
- Do material unregistered common law marks exist?
- Does the trademark owner regularly police the mark?
  - Quality Control of licensees
  - Infringement
- Are proper trademark notices being used?
- Intent to use trademarks - must be transferred with substantially all of the business to which the marks pertain

# IP Diligence - Trade Secrets

## Uniform Trade Secret Act (UTSA)

§1(4) “Trade Secret’ means information, including a formula, pattern, compilation, program device, method, technique, or process, that:

- derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

# IP Due Diligence – Trade Secret Issues

- Does Seller have procedures for identifying and protecting confidential information?
- Are confidential materials properly marked?
- Does Seller regularly use confidentiality agreements?
- Who actually knows the key information?
  - Are they going to be retained? Are they subject to non-compete agreements?
- Inspect documentation
  - Is information sufficiently documented or is it important to retain knowledgeable employees?

# IP Diligence – Copyrights

- See ownership issues (on next slide)
- Are proper copyrights notices being used?
  - Note: complex issues involving publication dates
- Is the seller using any third party materials?
  - Note: the lack of a notice doesn't mean a work isn't protected

# IP Diligence - Copyright Ownership

- A copyright is owned by the author, unless the work is a “work made for hire”, that is:
  - A work prepared by an employee within the scope of her employment; or
  - A work specially ordered or commissioned for use as a (1) contribution to a collective work, (2) an audiovisual work, (3) translation, (4) supplementary work, (5) compilation, (6) instructional text, (7) test or answers to a test, (8) an atlas AND the parties expressly agree in writing that the work is considered a “work made for hire.”
- Co-owners share profits, unless otherwise agreed in writing

# IP Due Diligence – Confirm Ownership, Liens and other Encumbrances

- How was the IP developed?
  - Consulting companies, employees, third parties?
    - Proper agreements in place?
    - Universities? Government funding?
  - Use of open source software? Interfaces?
- Assignment records:
  - Have assignments been recorded?
  - Chain of title (Name Changes, Assignments, Mergers)
  - Unrecorded conveyances
  - Present assignment
- Security interests / releases (see next slide)
- Licenses granted to third parties

# IP Due Diligence – Financing and Collateral Agreements

- Are security interests recorded?
  - Check state UCC filings
    - UCC Filings protect against creditors
  - Check Patent and Trademark, Library of Congress
    - Filings protect against Bona Fide Purchasers for value
- Most financing documents prohibit transfers that are out of the “ordinary course” of business
- Special triggers / conditions (e.g. escrow release upon change of control, transfer fees etc...)

# IP Due Diligence – License Agreements -1

- Inspect agreement provisions
  - Grant Clause – is it unambiguous?
    - Patent rights – make, use, sell, offer for sale, import?
    - Copyright – reproduce, make derivatives work, distribute, publicly perform, display?
    - Trademarks – use for promotion, marketing etc.. ?
    - Trade Secret – access, use, modify ?
  - Exclusive / Nonexclusive rights
  - Field of Use / Geographic Restrictions
  - Sublicense Rights?
  - Ownership of Improvements?



# IP Due Diligence – License Agreements -2

- Term – Ability to terminate?
  - Will consummation of the deal give rise to a termination right?
- Obligations / Rights to Enforce IP
- Indemnity / Warranties / Limitation of Liability
  - Note that many IP damages are consequential in nature
- Transferability (see next slides)

# IP Transferability Issues -1

- Patent and copyright license assignment analysis is governed by federal common Law not state Law.
  - *Unarco v. Kelley Co.*, 465 F.2d 1303, 1306 ( 7<sup>th</sup> Cir. 1972). *Everex Sys., Inc. v. Cadtrak Corp.* (In re CFLC, Inc.), 89 F.3d 673, 679 (9th Cir. 1996) *Cincom Systems v. Novelis Corp.* (6th Cir. 2009) 581 F.3d 431.
- There are “limited . . . situations where there is a significant conflict between some federal policy or interest and the use of state law” that require “judicial creation of a special federal rule” of common law. *O’Melveny & Myers v. Fed. Deposit Ins. Corp.*, 512 U.S. 79, 87 (1994).

# IP Transferability Issues -2

- Licenses are generally considered personal to the licensee and not assignable unless expressly stated so in the agreement.
- Allowing the free assignability of patent and copyright licenses would “undermine the reward that encourages invention.” *Id.* This is because any entity desiring to acquire a license could approach either the original inventor or one of the inventor’s licensees. *Cincom Systems v. Novelis Corp.* (6th Cir. 2009) 581 F.3d 431.

# IP Transferability Issues -3

- Some courts have found that a patent licensee may undergo a change of control (e.g., stock sale) without permission.
- *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 492-94 (1st. Cir.. 1997),
- *PPG Indus. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1096 (6th Cir.), cert. denied, 444 U.S. 930, 100 S.Ct. 272, 62 L.Ed.2d 187 (1979) (distinguishing mere sale of stock from a transfer of patent license as part of corporate merger wherein merging licensee ends its corporate existence).

# IP Transferability Issues -4

- One court has found that a reverse merger (where the licensee survives) violated anti-assignment clauses
  - *SQL Solutions, Inc. v. Oracle Corp.*, 1991 WL 626458 (N.D.Cal., December 18, 1991) holding that a software license held by the surviving entity in a reverse triangle merger was improperly transferred as the licensee went through a fundamental change in its form of ownership
  - *Compare, Meso Scale Diagnostics, LLC v. Roche Diagnostics GMBH*, No. 5589-VCP (Del. Ch. Feb. 22, 2013).

# IP Due Diligence – Trademark Licenses

- Grant clause should explicitly identify the licensed goods or services
- Trademark owner must maintain quality control over the licensed goods and services. See *FreecycleSunnyvale v. The Freecycle Network*, 626 F.3d 509 (9th Cir. 2010)
- Trademark owner may reserve the right to inspect and approve the form and appearance of the mark in advertising (this is not quality control)
- Franchise issues?

# IP Due Diligence – Open Source Software Licenses

- Is the seller using open source software (OSS)?
- Is the seller complying with its OSS obligations?  
(**NOTE:** different licenses have different obligations)
  - Redistribute without charge / profit
  - Include copyright notice of OSS code
  - Provide or make available source code
  - Non-enforcement of patent rights
  - Disclaim Warranties
  - Failure to comply with OSS license terms = copyright infringement
- Consider having a third party audit software for OSS issues(Black Duck, Palamida, OpenLogic).

# IP Due Diligence – Internet Issues -1

- Domain Names
  - Are important brands protected?
  - Confirm ownership
- Marketing Issues
  - Meta-Tags
  - Key-Word buys
  - Linking / Framing / Advertising issues
  - E-Mail practices / Spam?



# IP Due Diligence – Internet Issues -2

- Online e-commerce issues
  - PCI – Compliance ?
- Compliance with laws of other Jurisdictions
- Security Procedures and Audits - (e.g. SSAE 16)
- Back-up and disaster recovery capabilities

# IP Due Diligence – Privacy Issues

- Privacy policies and procedures
  - Are the policies and procedures followed?
  - Does privacy policy allow the company to transfer information to a third party in connection with a corporate transaction?
- Is sensitive personal information being collected?
  - What laws apply to the information?
    - Numerous Federal and State Laws
    - International Laws?
- Is the Seller subject to EU Privacy laws?

# IP Due Diligence – International Issues

- IP rights are regulated on a country by country basis
  - Trademark – first to file vs. First to use countries
  - Patent filings
- Licenses may have significant tax implications
  - IRS may impute income in non-arm's length transactions
  - Local government may impose a withholding tax on royalties
- License may need to be registered and/or approved by the local government
  - E.g., India will not approve if royalty exceeds 10%
- Local government may not allow cash to leave the country
- Export control issues

# IP Due Diligence – Litigation / Potential Litigation issues

- Does seller have written IP policies?
- Does seller have procedures for ensuring development work does not incorporate third party materials or rights?
- Assess risks, exposure of actual and threatened litigation against the seller
  - Identify indemnification obligations to and from the seller
  - Analyze costs associated with litigation
  - Analyze likelihood of success
    - Defenses / counterclaims?



# IP Provisions in M&A Agreements

# Exemplary Definitions -1

## Intellectual Property – Does the definition cover IP rights and/or other items?

- “Intellectual Property” means, collectively, all Intellectual Property Rights and Technology
- “Intellectual Property Rights” means collectively, any and all **rights** (anywhere in the world, whether statutory, common law or otherwise) **with respect to** .... [see next slides]
- “Technology” means, collectively, any and all: (a) technology,..... [see next slides]

# Exemplary Definitions -2

“Intellectual Property Rights” means collectively any and all **rights** (anywhere in the world, whether statutory, common law or otherwise) **with respect to**: (a) applications and registrations for patents, or other industrial rights or designs including any reissues, divisionals, renewals, extensions, provisionals, continuations or continuations-in-part thereof, and any other filings claiming priority to or serving as a basis for priority thereof (collectively “Patents”); (b) applications and registrations for copyrights or rights with respect to works of authorship **(including any moral and economic rights, however denominated)** (collectively “Copyrights”); (c) trademarks, service marks, certification marks, collective marks, logos and design marks, trade dress, trade names, corporate names, fictitious and other business names, or brand names, together with all goodwill associated with any of the foregoing, and all applications, registrations and renewals therefor (collectively “Trademarks”); (d) domain names, uniform resource locators and other names and locators associated with the internet, including applications and registrations thereof (collectively “Domain Names”); (e) telephone numbers; (f) mask works; (g) Trade Secrets, including rights to limit the use or disclosure thereof by any person; (h) privacy or publicity; (i) Technology; (j) databases and data collections (collectively “Databases”); (k) all other equivalent or similar rights; and (l) **any rights to pursue, recover or retain damages, costs or attorneys’ fees for past, present and future infringement or misappropriations of the foregoing.**

# Exemplary Definitions -3

“Technology” means any and all: (a) **technology**, compositions of matter, formulae, algorithms, procedures, processes, methods, techniques, know-how, ideas, creations, inventions, discoveries, and improvements (whether patentable or unpatentable and whether or not reduced to practice); (b) technical, engineering, manufacturing, product, marketing, servicing, financial, supplier, personnel and other information and materials; (c) customer lists, customer contact and registration information, customer correspondence and customer purchasing histories; (d) specifications, designs, models, devices, prototypes, schematics and development tools; (e) **Software**, websites, content, images, graphics, text, photographs, artwork, audiovisual works, sound recordings, graphs, drawings, reports, analyses, writings, and other works of authorship and copyrightable subject matter; (f) databases and other compilations and collections of data or information; (g) Trade Secrets; and (h) **tangible embodiments of any of the foregoing, in any form or media whether or not specifically listed herein.**



# Exemplary Definitions - 4

- Company IP - Different ways of defining key IP
  - means any and all Technology and any and all Intellectual Property Rights, including Company Registered Intellectual Property, that is or are owned (in whole or in part) or purported to **be owned (in whole or in part)** by, **exclusively licensed** to or otherwise exclusively controlled by the Company.
  - means any and all Intellectual Property exploited by, held for exploitation by, owned (in whole or in part), purported to be owned (in whole or in part) by or licensed to the Company.

# Exemplary Definitions - 5

- Company Owned IP -- Two different approaches
  - mean all Intellectual Property owned or purported to be owned by the Company, in whole or in part.
  - means all Company Intellectual Property other than Intellectual Property licensed to the Company pursuant to an Inbound License

# Exemplary Definitions - 6

- Company Registered IP
  - means any Company **Owned** Intellectual Property that is the **subject of an application or registration** with any Governmental Authority.
  - means all of the Registered IP owned by, **filed in the name of, or applied for by or on behalf of**, the Company
    - Registered IP means any and all United States, foreign, national and international: (i) Patents; (ii) registered Trademarks, applications to register Trademarks, including intent to use applications, or other registrations or applications related to Trademarks; (iii) Copyrights registrations and applications to register Copyrights; (iv) Mask Work registrations and applications to register Mask Works; (v) Domain Name registrations; and (vi) any other Intellectual Property Rights related thereto that are the subject of an application, certificate, filing, registration or other document issued by, filed with, or recorded by (**excluding any recordation of a lien, security interest or the like**), any state, government or other public legal authority at any time.

# IP Scheduling Rep -1

- Intellectual property schedules that accurately identify:
  - All IP that is owned by seller
    - Registered
    - Un-registered
      - E.g., products, domain names, databases, material IP assets
  - All IP that is exclusively licensed to the seller

# IP Scheduling Rep -2

- Schedule 1.1(a) sets forth a true and complete list of all: (i) Company Registered Intellectual Property **that is not expired or abandoned** (in each case enumerating specifically the applicable filing or registration number, title, jurisdiction in which filing was made or from which registration issued, date of filing or issuance, names of all current applicant(s) and **registered** owners(s), as applicable); (ii) Company Products; and (iii) any other Company Intellectual Property material to the conduct of the Business **[may explicitly call for other items such as domain names, unregistered trademarks and other material IP]**.

# Validity/Enforceability Rep

- Each item of Company Registered Intellectual Property **that is registered** is: in full force and effect; valid, subsisting and enforceable; and has been prosecuted in compliance with all applicable rules, policies and procedures of the applicable Governmental Authorities.
- Each **registered item** of Company Registered Intellectual Property is subsisting, **and, to the Company's Knowledge**, valid, and all necessary fees, including without limitation all registration, maintenance, issuance and renewal fees, in connection with such Company Registered Intellectual Property have been paid and all necessary documents and certificates in connection with such Company Registered Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Registered Intellectual Property.

# Prosecution Due Date Rep

Except as set forth in Section X of the Disclosure Schedule, **to the Company's Knowledge**, there are no actions that must be taken by the Company within ninety (90) days of the Closing Date, including the payment of any registration, maintenance or renewal fees or the filing of any responses to office actions, documents, applications or certificates for the purposes of obtaining, maintaining, perfecting or preserving or renewing any Registered Intellectual Property. The Company has not taken any action or allowed any event to occur, and the Company is not aware of any event or circumstances, which would set a United States patent bar date within ninety (90) days of the Closing Date with respect to any invention disclosure **that the Company is currently evaluating or has determined to file a patent application thereof**. A United States patent bar date is any date by which the Company must file a patent application in order to preserve Company's right and ability to seek patent protection for an invention in the United States.

# Prosecution Disclosure Rep -1

**To the knowledge of the Company**, there are no inventorship challenges, opposition or nullity proceedings or interferences declared, commenced or provoked, or threatened, with respect to any Patent Rights included in the Company Registrations. **To the knowledge of the Company**, the Company and the Subsidiaries have complied with their duty of candor and disclosure to the United States Patent and Trademark Office and any relevant foreign patent office with respect to all patent and trademark applications filed by or on behalf of the Company or any Subsidiary **and have made no material misrepresentation in such applications**. The Company has no knowledge of any information that would preclude the Company or any Subsidiary from having clear title to the Company Registrations **or affecting the patentability or enforceability of any Company Registrations**.



# Prosecution Disclosure Rep - 2

- Except as set forth in the prosecution history of any application to register any Company Intellectual Property, the Company does not have any Knowledge of any information, materials, facts, or circumstances, including any information or fact that would constitute prior art or that would render any of Company Registered Intellectual Property invalid or unenforceable. The Company has not misrepresented, or failed to disclose, and has no Knowledge of any misrepresentation or failure to disclose, any material fact or circumstances in any application for any Company Registered Intellectual Property that would constitute fraud or a misrepresentation with respect to such application, in each case that would otherwise affect the validity or enforceability of any Company Registered Intellectual Property.

# Small Entity Status

- The Company has not claimed a particular status, including “**Small Entity Status**” [**Micro Entity Status**] in the application for any Intellectual Property Rights, which claim of status was not at the time made, or which has since become, inaccurate or false or that will no longer be true and accurate as a result of the Closing
  - **Note** the size of licensees are counted towards status size

# Special Representations and Warranties – Trademarks

- “Registerability” of common law trademarks
- Continuous use of the trademarks
- Use of statutory registration notice
  - In some instances, marking is important to damage claims
- No false or misleading advertising

# Ownership Rep

- Except as disclosed in Section X of the Disclosure Schedule, each item of Company Intellectual Property owned by the Company is free and clear of any **Liens other than Permitted Encumbrances**. [see following slides for Lien and Permitted Encumbrances discussion]
- The Company is the sole and exclusive owner of **all right, title and interest** [see following slides for discussion about “right, title and interest”] in and to the Company Owned Intellectual Property. All Company Intellectual Property is free and clear of all Liens **other than Permitted Encumbrances**.

# Liens

- Exemplary definition of Liens....
- “**Liens**” means liens, pledges, voting agreements, voting trusts, proxy agreements, security interests, mortgages, and other possessory interests, conditional sale or other title retention agreements, assessments, easements, rights-of-way, covenants, restrictions, rights of first refusal, encroachments, **claims, and other burdens, options or encumbrances of any kind.**

# Permitted Encumbrances

**“Permitted Encumbrances”** means ....

- ... (i) any licenses granted by Company to a Person under any Company Intellectual Property; and (j) any license restriction or covenant associated with any licenses received by Company.

-or-

- non-exclusive licenses of Company Intellectual Property granted in the ordinary course of business.

-or-

- limitation on the rights of any Seller under any Contract that is expressly set forth in such Contract and such Contract is disclosed in the Disclosure Letter

# Definition of Right, title and Interest ?

- See, “What Does “Any and All Right, Title, or Interest” Mean?” By Charles L. Gholz and Kenneth D. Wilcox <http://www.oblon.com/sites/default/files/news/364.pdf> (analyzing the question from an interference perspective).
- It can be argued that ...
  - A licensee has a right in the IP being licensed
  - An exclusive licensee may have an interest in the IP being Licensed
  - Anyone with an ownership interest has title
- Thus: Consider scheduling or carving licenses out of an ownership rep (particularly one that mentions all right, title and interest).

# Employees and Contractors

No present or former employee, officer, consultant or contractor of the Company has any ownership, license or other right, title or interest in any Company Intellectual Property. Each current and former employee, officer, consultant and contractor of the Company **who is or has been involved in the development (alone or with others) of any Intellectual Property by or for the Company**, or has or previously had access to any Trade Secrets owned or held by the Company, has executed and delivered to the Company a written and enforceable Contract that: (i) assigns to the Company, without an obligation of payment, all right, title and interest in and to any such Intellectual Property; and, (ii) provides reasonable protection for such Trade Secrets.



# Special Representations and Warranties – Employees

- Materials developed within the scope of employment
- Assignment of rights of any interest in IP
- Agreement not to assert moral rights
- Agreement to cooperate with IP prosecution and enforcement
- Non-Compete agreements in place

# Employee and Contractor Policies

- The Company has, and enforces, a policy requiring each employee, consultant and contractor who has developed Intellectual Property Rights or Technology, to execute a proprietary information, confidentiality and assignment agreement, substantially in the form attached hereto as Section X(A) of the Disclosure Schedule, and **all current and former employees, consultants and contractors of Company** have executed such an agreement. Except as set forth in Section X(B) of the Disclosure Schedule, no such person has excluded any of his or her prior inventions that are used by the Company pursuant to such agreements.

# Third Party Development -1

- To the extent that any **material** Technology which is owned, possessed, used or controlled by Company has been developed or created **on behalf of the Company** by a third party, the Company has a written agreement with such third party with respect thereto and Company thereby either (i) has obtained ownership of, and is the exclusive owner of, **or (ii) has obtained a license sufficient for the conduct of its business as currently conducted to such Technology either by operation of law or by valid assignment or license.**

# Third Party Development -2

- In each case in which any Company has acquired ownership (or purported to acquire ownership) of any Intellectual Property from any Person, the Company has either obtained such pursuant to a valid and enforceable written assignment or by operation of law, in either case sufficient to irrevocably transfer ownership of all rights with respect to such Intellectual Property to the Company.

# Recordation of Assignments

- To the maximum extent provided for by, and in accordance with, Applicable Law, the Company has recorded each assignment of Registered Intellectual Property assigned to the Company with the relevant Governmental Entity, including the United States Patent and Trademark Office (the “**PTO**”), the U.S. Copyright Office, or their respective equivalents in any relevant foreign jurisdiction, as the case may be.

# Sufficiency -1

The company lawfully owns, or otherwise has sufficient rights to all Intellectual Property required to conduct its **business in the manner it is currently being conducted and as currently proposed to be conducted.**

# Sufficiency -2

The Technology owned by the Company and the Company Intellectual Property and all Technology and Intellectual Property Rights licensed to the Company constitute all the Technology and Intellectual Property Rights used in and/or necessary to the conduct of the business of the Company as it currently is conducted, and, to the Knowledge of the Company, as it is currently planned or contemplated to be conducted by the Company, including, without limitation, the design, development, manufacture, use, disclosure, import, branding, advertising, promotion, marketing, sale, license and distribution of products or other Technology of the Company, including performance of services.

# Non-Infringement -1

The Company, Company Products, Company Intellectual Property and the conduct of the Business has not, does not ~~and will not~~ violate, infringe (directly, contributorily, by inducement, or otherwise) or misappropriate any Intellectual Property Rights of any Person. There is no pending or threatened Proceeding **or an offer of a license** involving any Company Intellectual Property, Company Product or the conduct of the Business or alleging that any of the foregoing infringes, misappropriates, violates **or otherwise requires** the rights of any Person. **No Person is infringing upon, misappropriating or otherwise violating or conflicting with any Company Intellectual Property, or has previously done so.**



# Non-Infringement -2

To the Knowledge of the Company, the operation of the business of the Company as it currently is conducted **or is contemplated to be conducted by the Company**, including but not limited to **the design, development, use, disclosure, import, branding, advertising, promotion, marketing, license, manufacture sale and distribution of the products, or services or other Technology of the Company** does not **and will not when conducted by the Interim Surviving Corporation of Final Surviving Entity in substantially the same manner following the Closing** infringe or misappropriate any Intellectual Property Right of any Person, and, except as set forth in Section X of the Disclosure Letter, the Company has not received notice from any Person claiming that such operation or any act, product, or service or other Technology of the Company infringes, misappropriates or requires any Intellectual Property Right of any Person or constitutes unfair competition or trade practices under the laws of any jurisdiction, nor does the Company have Knowledge of any basis therefor.

# Transferability

- Except as disclosed in Section X of the Disclosure Schedule, all **Company Intellectual Property** will be fully transferable, alienable or licensable by Parent without restriction and without payment of any kind to any third party.
- **Note:** Need to ensure that definitions cover all IP owned and used by the Company

# Effects of the Transaction -1

The execution of the Transaction Documents and the consummation of the Transactions will not result in the loss or impairment of the Company's rights to own or use the Company Intellectual Property, or give rise to any right of any Person **to terminate any rights under any Intellectual Property License.**

[**Note:** this is somewhat narrow. See next slide for broader rep]

# Effects of the Transaction -2

Except as disclosed in Section X of the Disclosure Letter, none of the execution, delivery and performance of this Agreement, the performance by the Company of its obligations hereunder, nor the consummation of the transactions contemplated in this Agreement, will result in (i) any third party being granted rights or access to, or release from escrow, of any Company Intellectual Property, (ii) Parent granting to any third party any right, title or interest to or with respect to any Intellectual Property Rights owned by, or licensed to, Parent pursuant to any agreement to which the Company is a party or by which it is bound, (iii) Parent being bound by, or subject to, any non-compete or other restriction on the operation its businesses, (iv) Parent being obligated to pay any royalties, fees, honoraria or other amounts to any third party in excess of those payable by Company prior to the Closing Date pursuant to agreements to which the Company is a party; (continued on next slide)

# Effects of the Transaction -2 (continued)

(v) a material breach of or default under any instrument, license or other agreement governing any Intellectual Property Rights owned by or licensed to the Company; (vi) the forfeiture or termination of, or give rise to a right of forfeiture or termination of, any Intellectual Property Rights owned by or licensed to the Company; or (vii) the material **impairment of Parent's right to use, develop, make, have made, offer for sale, sell, import, copy, modify, create derivative works of, distribute, license, or dispose of any Intellectual Property Rights owned by or licensed to the Company or portion thereof.**

# Licenses and Agreements -1

Schedule X sets forth a true, complete and correct list of all: (i) Outbound Licenses and (ii) Inbound Licenses. The Intellectual Property Licenses are valid, binding and enforceable on all parties thereto, and there exists no event or condition that does or will result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default by any party thereunder.

**Note:** Important to understand: (i) whether shrink-wrap and other non-material licenses are required to be scheduled; and (ii) whether the warranty applies to such licenses. (see next slide)

# Licenses and Agreements -2

Other than outbound “shrink wrap,” “end user” or similar licenses in a form substantially in accordance with the form set forth on Section X of the Disclosure Letter and inbound “shrink wrap” and similar publicly available commercial end user or open source licenses or other acquisitions of Technology that is generally available to the public, Section X of the Disclosure Letter lists all contracts, licenses and agreements to which the Company is a party with respect to any Technology or Intellectual Property Rights. The Company is not in material breach of nor has the Company failed to perform under in any material respect, **any of the foregoing contracts, licenses or agreements** and, to the Knowledge of the Company, no other party to any such contract, license or agreement is in breach thereof or has failed to perform thereunder. **None of the foregoing contracts, licenses or agreements prohibit assignment, or require consent of any Person to assign, to Parent in connection with the Merger.**

# Licenses and Agreements -3

To the Knowledge of the Company, there are no contracts, licenses or agreements between the Company on the one hand and any other Person on the other hand with respect to the Company Intellectual Property **under which there is any dispute regarding the scope of such agreement, or performance under such agreement, including with respect to any payments to be made or received by the Company thereunder.**



# Disclosure of Form Contracts

The Company has made available in the Data Room a complete and accurate copy of each standard form of Contract used by any member of the Company Group since **January 1, 200X** relating to any Company IP, including each standard form of: (i) employee Contract containing any assignment or license of Intellectual Property Rights; (ii) consulting or independent contractor agreement containing any Intellectual Property assignment or license of Intellectual Property Rights; and, (iii) confidentiality or nondisclosure Contract.

# Disclosure of Contracts with Problematic Provisions

The Company is not a party to or bound by any Contract containing any covenant or other obligation: (i) restricting or otherwise limiting the right of Company to engage or compete in any line of business or to compete with any Person; (ii) restricting or otherwise limiting the right of Company to hire or retain employees or contractors; (iii) granting to any Person any: (A) exclusive rights (including rights that are partially exclusive, or exclusive only as to a specific territory or that obligate Company to exclusively obtain goods or services from any Person), or (B) rights to sublicense any Company IP (other than any rights granted to resellers of the Company to sublicense Company Software solely in binary form); or, (iv) providing “most favored pricing” or similar rights to any Person.

# Payment Obligations

Section X of the Disclosure Schedules sets forth a complete and accurate list and summary of all royalties, fees, commissions, and other amounts payable by any member of the Company Group to any other Person (other than sales commissions paid to employees according to the Seller's standard commissions plan) upon or for the manufacture, sale, or distribution of any Product or the use of any Company IP.

# Company Software

Schedule 1.1(e) identifies all **Company Software** [See Next Slide for Exemplary Definitions].

- “Company Software” means any Software that is **owned or licensed to** Company or otherwise used, distributed, or made available by Company.
- “Company Software” means any software programs included in or developed **for inclusion in the Company’s products** by the Company or any third party (including all software programs embedded or incorporated in the Company’s products).

# Software Viruses -1

The Company [**employs**] [**has employed at all times**] commercially reasonable measures to ensure that the Company Software Programs do not contain any Viruses.

“Virus” means any computer code intentionally designed to disrupt, disable, or harm in any manner the operation of any software or hardware or to allow a third party to have access to the user’s computer or network without such user’s authority.

# Software Viruses -2

No **Products or Company Software**, contains any “back door,” “drop dead device,” “time bomb,” “Trojan horse,” “virus,” or “worm” (as such terms are commonly understood in the software industry) or any other code designed or intended to have, or capable of performing, any of the following functions: (i) disrupting, disabling, harming, or otherwise impeding in any manner the operation of, or providing unauthorized access to, a computer system or network or other device on which such code is stored or installed; or (ii) **damaging or destroying any data or file without the user’s consent.**

# Software Defects

None of the Company Software: (i) contains any material bug, defect, or error (including any bug, defect, or error relating to or resulting from the display, manipulation, processing, storage, transmission, or use of data) that materially and adversely affects the use, functionality, or performance of such Company Software or any product or system containing or used in conjunction with such Company Software; or (ii) fails to materially comply with any applicable warranty or other contractual commitment relating to the use, functionality, or performance of such Company Software.

# Software Documentation

The source code for all Company Software owned by Company contain clear and accurate annotations and programmer's comments, and otherwise has been documented in a professional manner that is **sufficient to enable the software developers for the Company** to understand, analyze, and interpret program logic, correct errors and improve, enhance, modify and support such Company Software in a reasonable and timely manner.



# Software Escrow

Section X of the Disclosure Letter contains a list of all Contracts in which the Company has placed or agreed to place Company Intellectual Property into escrow **and, upon the occurrence of certain events specified in such Contracts to release such source code to a third party.** No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or could reasonably be expected to, **nor will the consummation of the transactions contemplated herein,** result in the disclosure or release of such source code by the Company or escrow agent(s) or any other person to any third party.

# Open Source -1

- The Company is not obligated under any Open Source License to distribute or make available any Intellectual Property, Source Code or other materials or grant any other rights to any Person other than the unmodified Open Source Materials received by Company under each such Open Source License.

# Open Source -2

- Except as listed in Section X of the Disclosure Letter Schedule, **the Company Software Programs** do not contain **any third party software** or Open Source Materials.
- Section X of the Disclosure Letter accurately identifies and describes (i) each item of Open Source Material that is contained in, distributed with, or used in the development of the Products or from which any part of any Product is derived, (ii) the applicable license terms for each such item of Open Source Material, and (iii) the Product(s) to which each such item of Open Source Material relates.

# Open Source - 3

No Product contains, is derived from, or is distributed with, or is being or was developed using Open Source Material that is licensed under any terms that (i) impose or could impose a requirement or condition that any Product or part thereof (A) be disclosed or distributed in source code form, (B) be licensed for the purpose of making modifications or derivative works, or (C) be redistributable at no charge, or (ii) otherwise impose or could impose any other material limitation, restriction, or condition on the right or ability of any member of the Company Group to use or distribute any Product, other than an obligation to include or make available copyright notices, or license terms applicable to such Open Source Material in connection with distribution of the Products.

# Open Source Software Definition -1

- “Open Source Software” means software that is licensed under a Contract that is, or is substantially similar to, a license now or in the future approved by the Open Source Initiative and listed at <http://www.opensource.org/licenses>, which licenses include all versions of the GNU GPL, the GNU LGPL, the GNU Affero GPL, the MIT license, the Eclipse Public License, the Common Public License, the CDDL, the Mozilla Public License, the Academic Free License, the BSD license and the Apache License.

# Open Source Software Definition -2

- “Open Source License” means a license of an item of Software or other material that requires or that conditions any rights granted to the licensee in such license upon: (i) the disclosure, distribution or licensing of any Software or other material; (ii) a requirement that another Person be permitted to access, modify, make derivative works of, or reverse-engineer any such Software or other material; (iii) a requirement that such Software or other material be redistributable by another Person; or (iv) the grant of any patent or other rights to another (including non-assertion or patent license obligations) by the licensee of such license.

# Open Source Audit

The Company has, within the six (6) month period immediately preceding the date of this Agreement, completed a commercial scan (e.g., Black Duck) of all of its source code to identify all Public Software contained in such source code. The Company represents and warrants that (a) it has Made Available a true and correct copy of the relevant report to Buyer, (b) all Public Software identified in the report has been accounted for in Section X of the Disclosure Schedule, and (c) the Company is in compliance with all license requirements of the Public Software identified in the report.

# Trade Secret Protection

Company has: (i) taken all reasonable measures **to protect and preserve its rights in the Company Intellectual Property** and the confidentiality of **all** Trade Secrets owned or held by Company; and (ii) only disclosed any such Trade Secrets pursuant to the terms of a written agreement that requires the Person receiving such Trade Secrets to protect and not disclose such Trade Secrets.



# No Government Funding

No government funding, facilities, **employees** or resources of a university, college, other educational institution or research center were used in the development of the Company Intellectual Property and, **to the Knowledge of the Company**, no Governmental Entity, university, college, other educational institution or research center has any claim or right in or to the Company Intellectual Property.

# Standards Setting

None of the members of the Company Group is or has ever been a member or promoter of, or a contributor to, any industry standards body or similar organization that could compel any member of the Company Group to grant or offer to any third party any license or right to any Company IP.

# Ownership of Improvements

- No Person (other than the Company) has an interest or right in or to any improvements, modifications, enhancements, customization or derivatives of any Company Owned Intellectual Property.
- Except as set forth in Section X of the Disclosure Schedule, no Person who has licensed Technology or Intellectual Property Rights to the Company has ownership rights or license rights to improvements made by the Company in such Technology or Intellectual Property Rights.

# Company Hasn't Assigned any IP

- Except as disclosed in Section X of the Disclosure Schedule, the Company has not transferred any ownership interest of, or granted any exclusive license of or right to use **or otherwise exploit**, or authorized the retention of any exclusive rights ~~to use~~, any Technology or Intellectual Property Right that is or was Company Intellectual Property, to any other Person.

# Identification of Databases

Section X of the Disclosure Schedule identifies and describes each distinct electronic or other Database containing (in whole or in part) Personal Data maintained by or for the Company at any time (the “**Company Databases**”), and the types of Personal Data in each such database, the general means by which the Personal Data was collected.

# Privacy Policies

- The Company has a privacy policy (each, a “**Privacy Policy**”) regarding the collection, use and disclosure of information in connection with the operation of the Company’s business, including, without limitation, the collection, use and disclosure of Covered Personal Information. True and complete copies of all Privacy Policies that are currently used by the Company have been Made Available to Parent. The Company has posted its Privacy Policy in a clear and conspicuous location on its web site.

# Privacy – Data Collection

The Company has not collected, used or disclosed any Covered Personal Information in violation of its Privacy Policy or the privacy rights of third parties or any applicable Privacy Law. The Company has not been notified of, and is not the subject of, any regulatory investigation or Legal Proceeding related to data security or privacy. No person (including any Governmental Entity) has made any claim or commenced any Legal Proceeding with respect to loss, damage, or unauthorized access, use, modification, or other misuse of any such information by the Company (or any of its employees or contractors).

# Effect of Transaction on Information

The consummation of the transactions contemplated in this Agreement and the Transaction Documents, including any the transfer of Covered Personal Information resulting from such transactions will not violate any Applicable Law or the Privacy Policy of the Company as it currently exists or as it existed at any time during which any of such Covered Personal Information was collected or obtained.



# Data Security

The Company has security measures in place to protect Covered Personal Information it receives from illegal or unauthorized access, use, or disclosure, including, without limitation, a written information security program that includes controls that have been regularly tested and reviewed. **To the Knowledge of the Company**, no person has gained unauthorized access to any Covered Personal Information held by the Company. For Covered Personal Information subject to European Privacy Legal Requirements only, such Covered Personal Information has only been transferred to a country outside the European Economic Area where the Company has taken steps to ensure an adequate level of protection for such Covered Personal Information.

# Disaster Back-Up and Recovery

The Company has appropriate disaster recovery plans, procedures and facilities for its business and has taken commercially reasonable steps to safeguard the information technology systems utilized in the operation of its business, including the timely implementation of all appropriate security patches, upgrades and the like that have been made available to the Company. The Company makes reasonable back-up copies of data and information critical to the conduct of its business and conducts periodic tests to ensure the effectiveness of such back-up systems.

# IT Systems -1

- To the Company's Knowledge, the Software used by the Company is substantially free of any material defects, bugs and errors, and does not contain or make available any disabling codes or instructions, spyware, trojan horses, worms, viruses or other software routines that permit or cause unauthorized access to, or disruption, impairment, disablement, or destruction of, Software, data or other materials ("Contaminants"). Company has taken commercially reasonable steps and implemented commercially reasonable safeguards to ensure that the Systems are substantially free from Contaminants.

# IT Systems - 2

Section X(i) of the Disclosure Letter sets forth a list of all **material** Computer Systems owned, leased or licensed by the Company **that are necessary for the operation of the business**. In the past 12 months, there has been no failure or other material substandard performance of any Computer Systems owned or leased by the Company **which has caused any material disruption to the business of the Company**. Except as set forth in X(ii) of the Disclosure Letter, the Company has taken commercially reasonable steps to provide for the back-up and recovery of data and information and have commercially reasonable disaster recovery plans, procedures and facilities and, as applicable, has taken commercially reasonable steps to implement such plans and procedures. The Company has taken reasonable actions to protect the integrity and security of its Computer Systems and the software information stored thereon from unauthorized use, access, or modification by third parties.

# Company Products

The Products conform in all material respects with all applicable contractual commitments and all express and implied warranties, the Company's published product specifications and with all regulations, certification standards and other requirements of any applicable Governmental Authority. All Products are free of any material defects. There are no defects in the design or Technology embodied in any Products which impair or are likely to impair the intended use of the Product.



# Post-Signing / Post-Closing Issues

# Covenants

- Covenants are used to impose obligations on the seller between the time the purchase agreement is executed and the time the deal is closed
- Some exemplary obligations:
  - To make ownership records current and fill in gaps in the chain of title.
  - Obtain assignments from inventors or authors where necessary
  - To obtain necessary consents to the assignment of intellectual property rights or licenses to “Buyer”
  - To obtain and record releases of prior liens against intellectual property
  - Prohibit abandonment of applications and registrations

# Closing Issues

- Delivery Obligations
  - important for asset purchases
- IP Assignments
  - (important for asset purchases)
- Recordation of merger documentation
  - Important for mergers
- Special Trade Secret Issues



# Delivery Obligations

- Assigning the IP is different than delivering the tangible embodiments on the IP
- Specify how information will be delivered
  - Does seller have an obligation to document previously unrecorded information?
  - Note that tax issues may be implicated

# IP Assignments -1

- Assignment documents (that are separate from the purchase agreement) should be used in asset transactions
- Consider using a master IP Assignment Agreement with separate sub assignment documents intended for recordation with government offices

# IP Assignments -2

## ***Right to sue for past damages must be explicitly conveyed***

- "The authorities are uniform that [the assignment of past damages] must be express, and can not be inferred from an assignment of the patent itself." *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574, 1576, 19 USPQ2d 1513, 1514 (Fed. Cir. 1991)
- "The rule is that to pass the right to sue for past infringement words must be used in the assignment which expressly transfer to the assignee the right of action" *Moore v. Marsh*, 74 U.S. (7 Wall.) 515, 522, 19 L.Ed. 37 (1868)

# IP Assignments -3

- Trademarks Assignments
  - Goodwill must be transferred with any trademark registration otherwise the mark may be abandoned
  - Intent-to-use application cannot be transferred without underlying assets also being transferred

# Trade Secret Transfer Issues -1

## ***DTM Research, LLC v. AT&T Corp.*** **245 F.3d 327 (4<sup>th</sup> Cir. 2001).**

- “[I]nformation forming the basis of the secret can be transferred, as with personal property its continuing secrecy provides the value, and any general disclosure destroys the value.”
- “One “owns” the trade secret when one knows of it, as long as it remains secret.”
- Thus one who possesses a trade secret may demand remedies from those who misappropriate the knowledge.

# Trade Secret Transfer Issues -2

- UTSA Comment: “Where more than one person is entitled to trade secret protection with respect to the same information, only that one from whom misappropriation occurred is entitled to a remedy.”
  - Cases are muddled as to whether exclusive and non-exclusive licensees can bring suit
- From drafting perspective, one should consider utilizing provisions that require assistance with enforcement activities

# Trade Secret Transfer Issues -3

- Unless limited by (1) written agreements, or (2) the Uniform Trade Secret Act, any person who has access to the trade secret may, without an accounting obligation:
  - Use it; and
  - Disclose it (thereby destroying value)
- When “assigning” a trade secret one must carefully consider what obligations should be imposed on the assignor
  - Destruction of materials?
  - Non-compete?

# Post Closing Considerations

- Patent, Trademark and Copyright ownership changes should be recorded
  - Only the proper owner can bring suit
- Trademark rights can be abandoned if improper entity is using the rights without authorization
- New power of attorney forms must be filed
- Applications and registrations should be docketed to avoid abandonment



PERKINScoie



Thanks!

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