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***Thorny IP Issues That Can Potentially Derail M&A Deals:  
How to Timely Identify Them, What to Do if They Arise, and  
How to Keep Your C-Suite Happy in the Process***

John McGaraghan, Ryan Smith, and Mike Guo  
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# ***Agenda***

1. Background: The Role of IP Diligence in M&A
2. Approaches to Risk Mitigation
3. IP Ownership and License Rights
4. Springing Rights
5. Trojan Horses
6. Other “Deal Killer” Contract Terms
7. Managing Attorney-Client Privilege and Waiver



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*The Role of IP Diligence  
in M&A*

# Role of Diligence

## ■ Structural Considerations

- Whole company acquisition vs. asset carveout

## ■ Identifying Risks

- Flows from context and deal drivers – what is buyer trying to accomplish?
- What is an “issue” and how bad it is will depend

## ■ Key Areas of Risk

- IP ownership / transferability
- Open source software misuse
- Springing rights
- “Trojan Horse” license grants
- "Deal Killer" contract provisions
- Attorney-client privilege

## ■ Execution, Remediation, and Integration Planning

- Basic rep / disclosure / indemnity drafting
- Structural and Operational Recommendations
- “100 Day Plan”





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# *Risk Mitigation Strategies*

# ***Risk Mitigation Strategies***

## ■ **Structural Approaches**

- Modify deal structure (asset vs. merger)
- Holding assets, contracts, operations in separate entities

## ■ **Operational Strategies**

- Creating remediation plans
- Timing considerations: pre-sign vs. pre-close and closing conditions
- Post-close integration work – follow through!

## ■ **Contractual Mechanisms**

- Basic rep / disclosure (informational purposes) / indemnity protection
- “Fundamental Representation” or similar treatment for IP (longer survival, higher cap, no deductible, etc.)?
- Special indemnities – separate basket, cap, survival for specified items
- Closing conditions
- Ancillary Agreements (TSA, License Agreement, Commercial Agreement)

## ■ **Insurance**

- Coverage for known risks vs. unknown claims
- Coverage to protect specific IP assets

## ■ **Mix and Match to Taste!**

- A combinations of strategies can work best



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*Key Issues:  
IP Ownership and Licenses*

## ***IP Ownership and Sufficiency of Rights***

- Does the Target Own What You/They Think?
  - Invention Assignment Agreements – timing considerations
  - Present assignment (Stanford v. Roche, 563 U.S. 776 (2011))
  - International considerations
  - Subsequent transfers – has Target assigned away any rights?
  
- Can Target Sell It?
  - Liens and encumbrances
  - Assignability of key contracts
  
- Can Buyer Exercise as Buyer Intends?
  - Grants of exclusivity
  - Transferability of third-party licenses
  - Scope of third-party license grants
  
- Are the Target's Assets Tainted by Third-Party IP?
  - McElrath v. Kalanick, 224 A.3d 982 (Del. 2020)



# ***Employee and Contractor IP Assignments: Assessment***

## **■ Chain of Title**

- Present Assignment: “agree to assign” or “shall own” construct vs. “hereby assign”
- Missing backup licenses
- Assignments recorded with PTO
- Joint ownership
  - Can someone else exercise / license, or need to join in enforcement?
  - Are there duties to account in the US or elsewhere?

## **■ International Issues**

- Ukraine and other Eastern Europe: Limitations on assigning future work product
- India: Copyright assignments may be subject to right of reversion

## **■ Poor Drafting**

- Statutory enforceability requirements not met (overbroad, failure to provide carveouts)
- Narrowly drawn, potentially leaving out key IP

## **■ Assess Materiality**

- Who is affected and what jurisdiction are they?
- What did they create?
- Are they still employed?
- Will they be onboarding?

## ***Employee and Contractor IP Assignments: Remediation***

### **■ Confirmatory Assignments**

- May require additional consideration
- Work with foreign counsel to address local requirements

### **■ Timing of Delivery**

- Are any pre-signing?
- Consider confidentiality – will chasing the signatures create risk of leak?
- Covenant to obtain prior to closing (generally an efforts standard)
- Any closing conditions

### **■ Reps and Disclosures**

- Should disclosures be qualified by “informational purposes”?

### **■ Special Indemnities**

- Once the issue is scoped, draft specific indemnities subject to separate baskets, caps and survival periods
- Can be tied to the disclosure itself

### **■ Fallback**

- Can the relevant IP be removed and replaced? Time and budget considerations

# ***Inbound License Agreements: Assessment***

## ■ **Scope**

- Did the Target obtain rights sufficient to enable Buyer's intended use case?
- Many AI systems licensed under quasi-"open" terms – how open are they?

## ■ **Transferability**

- Will the license survive the transaction without Licensor consent?
- Consider transaction structure: Is there an assignment? (Asset vs. stock vs. RTM / FM)
- Consider the language: What does the assignability clause prohibit? Other clauses?
- Are there other relevant rights ( sublicensing, access by affiliates or contractors)?
- Consider: SQL Sols. v. Oracle, 1991 U.S. Dist. LEXIS 21097 (N.D. Cal.); Cincom Sys. v. Novelis, 581 F.3d 431 (6th Cir. 2009); Meso Scale v. Roche, C.A. No. 5589-VCP (Del. Ch. Feb. 22, 2013)
- Reality check: What is the counterparty's relationship with Buyer?

## ■ **Economics**

- How do license fees work – how will that translate to Buyer?
- Are there express (or industry typical) transfer fees?

## ■ **Alternatives**

- Does Buyer have its own license already?
- Are there other third-party alternatives available (consider cost)?
- Timing and cost for re-development

## ***Inbound License Agreements: Remediation***

### **■ Consents**

- Covenant to obtain consents
- Closing condition for material consents

### **■ Amendments**

- Where scope or economics are unacceptable, require an amendment sufficient for Buyer's purposes

### **■ Structural Options**

- Convert asset sale to stock deal / RTM, consider “drop down” reorg and sale of entity
- Maintain license in a subsidiary (even if other assets rolled up)
- Provide benefit through other means (TSA, other commercial agreement)
- Consider economics – whose pocket do unanticipated costs come out of?

### **■ Rip and Replace**

- Cost and timing considerations
- Even if feasible, can the license be terminated?



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*Key Issues:  
Springing Rights*



## ***What Is a Springing License?***

**Any license right / term that springs into being upon occurrence of an event**

- **Examples:**

- Source Code Escrow/Release
- Covenant Not to Sue which converts to a license
- “License on Transfer” obligations
- Can apply to restrictions as well (freeze in scope upon acquisition)

- **Considerations**

- What is the trigger and does it apply?
- What is the scope of the modification to the rights granted?
- Does the change matter to Buyer?

## Case Study: LOT Network

### ■ License on transfer

- [LOT Network](#)
  - 4,200+ members with >4,452,869 patents
  - Founded by Canon, Google, and RedHat in 2014
  - Members agree that their patents will not be used by a PAE to sue other members
    - If patent passes to PAE (i.e., triggering event), then patent is automatically licensed to all LOT members
- IBM acquired RedHat in 2020
  - End result: [IBM became LOT member](#)

## Source Code Escrow

### ■ Key Components

- Deposit
- Release Conditions
- Release License

### ■ Deposit

- What is required to be deposited and maintained, and for how long?
- Is deal value is attached to the proprietary nature of that asset?

### ■ Release Conditions: When does the beneficiary receive the source?

- Varies widely – as a business continuity protection, bankruptcy is typical
- Sometimes sale of assets or company can be a trigger
- Sometimes there are secondary requirements: competitor, failure to support, failure to meet certain fiscal requirements, etc.

### ■ Release License: What can the beneficiary do with the source?

- Varies widely
- For business continuity protection, ongoing self-support is typical, maybe limited to remainder of committed support term
- Often a licensee negotiates for broader rights

## ***Source Code Escrow: Remediation***

### **■ Structural**

- Whether or not changing between stock and asset deals will help depends on the specific language of the clause
- Can a license get the buyer what they need without triggering the clause?

### **■ Operational**

- Generally terminating the agreement will not be an option
- Secure amendment / waiver of the clause – requires getting beneficiary comfortable with Buyer as new owner of Target or business / assets
- Comply and force “fork” proceed with new development / integration outside that relationship

### **■ Contractual**

- Where ambiguous and / or speculative whether beneficiary would exercise, and where the impact can be valued, special indemnities may be appropriate
- Consider closing outs for failure to address in a satisfactory manner



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*Key Issues:  
Trojan Horses*



## ***Trojan Horse Licenses***

### **■ Trojan Horse**

- Following RTM / stock sale, the Buyer is now the parent (an “Affiliate”) of Target
- License grants that include “Affiliates” in Target’s contracts may directly bind Buyer following close, causing Buyer’s IP to be licensed out to the counterparty

### **■ What’s the Concern?**

- Buyer licensing program (e.g., SEPs and standards licensing revenue)
- Buyer may have existing or prospective litigation
- Buyer contracts may be violated (e.g., violating exclusivities, etc.)
- Other unfavorable terms may also have “Trojan” effects (MFNs, Non-competes, etc.)
- Private equity sponsors or large conglomerates may have VERY large affiliate networks

## ***Trojan Horse Licenses: What Do They Look Like?***

### **■ Definition of Affiliates**

- Typical “control” based definitions go down (subs), up (parents), and out (siblings)
- Are "current and future" affiliated entities included in the definition?

### **■ Definition of Licensor**

- Target and all its current and future Affiliates

### **■ Definition of Licensed IP**

- All intellectual property rights owned by Licensor or its Affiliates

### **■ License Grant**

- Licensor hereby grants, on behalf of itself and its Affiliates...

## ***Trojan Horse Licenses: Risk and Remediation***

### **■ Close Analysis**

- Map express language to actual facts – are there real concerns?
- Consider the counterparties – are they competitors or litigants?
- Consider Buyer’s licensing business
- Can the Target bind the later acquirer?

### **■ Structural Remediation**

- Can the assets be purchased and the license left behind?

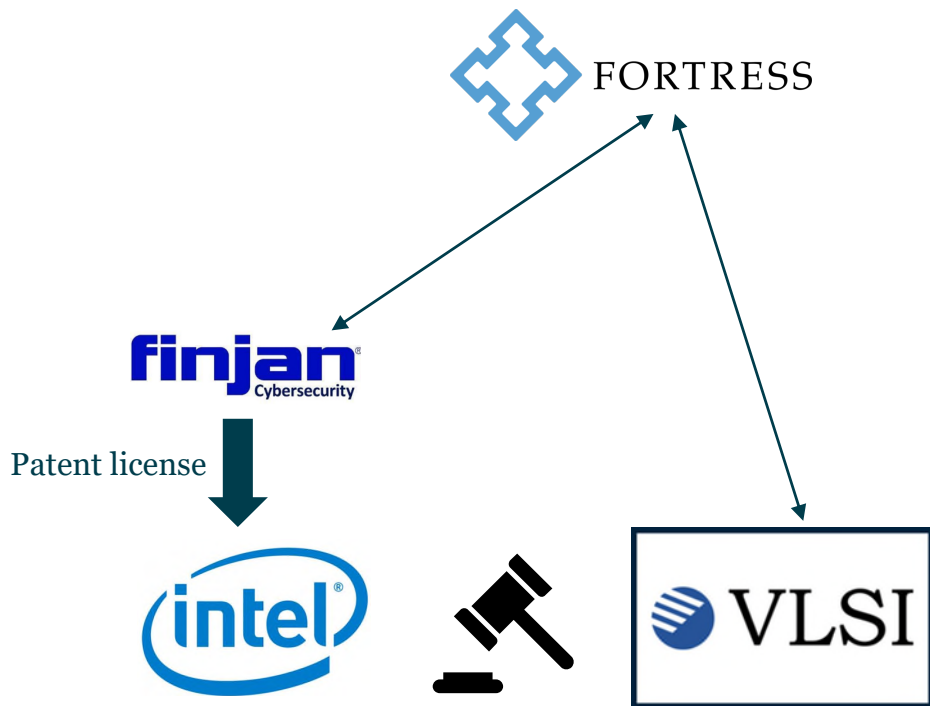
### **■ Operational Remediation**

- Can the license be amended or terminated prior to closing?

### **■ Contractual Remediation**

- Can the foreclosed opportunity be valued?
- Allocate between the parties through purchase price adjustment

# Case Study: VLSI v. Intel



[VLSI Tech. LLC v. Intel. Corp.](#)  
 United States Court of Appeals for the Federal Circuit  
 December 4, 2023, Decided  
 2022-1906

**Reporter**  
 87 F.4th 1332 \*; 2023 U.S. App. LEXIS 31861 \*\*; 2023 U.S.P.Q.2D (BNA) 1426

VLSI TECHNOLOGY LLC, Plaintiff-Appellee v. INTEL CORPORATION, Defendant-Appellant

**Prior History:** [\*\*1] Appeal from the United States District Court for the Western District of Texas in No. 6:21-cv-00057-ADA, Judge Alan D. Albright.

**Disposition:** AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED.

**Case Summary**

**Overview**  
 HOLDINGS: [1]-The judgment of infringement as to one patent was reversed because, based on the evidence presented, plaintiff's doctrine of equivalents theory failed as a matter of law; plaintiff's testimony stated nothing remotely sufficient, especially in light of defendant's evidence about the significance of using a power control unit, rather than other particular components, such as cores within the system, for making frequency decisions based on workload information; [2]-The district court's conclusion that defendant unduly delayed filing its motion for a license defense was an abuse of discretion because defendant was required by the 2012 license agreement to follow certain procedures and it acted with diligence in doing so.

**Outcome**  
 Affirmed in part, reversed in part, vacated in part, and remanded.

**LexisNexis® Headnotes**

Civil Procedure > ... > Standards of Review > Substantial Evidence > Sufficiency of Evidence  
**HN1:** **Substantial Evidence, Sufficiency of Evidence**  
 An appellate court reviews verdicts for substantial-evidence support.

Civil Procedure > Trials > Jury Trials > Province of Court & Jury  
**HN2:** **Jury Trials, Province of Court & Jury**  
 In a patent infringement suit, when a claim phrase is not construed, an appellate court defers to a jury's view of the claim element unless that view is contrary to the only reasonable view of the claim element.

Patent Law > Infringement Actions > Doctrine of Equivalents > Equivalence Limits  
 Patent Law > Infringement Actions > Doctrine of Equivalents > Functional & Structural Limitations  
 Patent Law > Infringement Actions > Claim Interpretation > Scope of Claim  
**HN3:** **Doctrine of Equivalents, Equivalence Limits**  
 The doctrine of equivalents provides a limited exception to the principle that claim meaning defines the scope of the exclusivity right in a patent system. Applied more broadly, the doctrine of



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*Key Issues:  
“Deal Killer” Commercial Terms*



## ***Deal Killer Clauses: Outbound IP Assignment***

### **■ Assessment: Has the target assigned away material rights?**

- What is left?
- Is the IP in question still being used?
- Is the assignee a competitor or litigant?
- Did the Target manage around the assignment appropriately?
- Counterparty may have an incentive to bring claims, even if weak

### **■ Structural Remediation**

- Is there a deal to be done acquiring only the remaining assets?

### **■ Operational Remediation**

- Can the agreement be amended or at least clarified?
- Can the divested IP be extracted and re-developed – is a “clean room” implementation possible?

### **■ Contractual Remediation**

- Can the IP that is no longer available, or the scope of the risk, be valued?
- Allocate between the parties through purchase price adjustment
- Consider special indemnities

## ***Deal Killers: Preferential Rights***

### ■ **Assessment: Has the Target granted “preferred rights”?**

- Rights of First Refusal / Offer / Negotiation
- Preferred Pricing / Terms (aka "MFN")
- Who is the beneficiary of the rights, and exactly what is required?
- Often negotiated with the express or intended effect of being a “poison pill”

### ■ **Structural Remediation**

- May be possible, depending on the specific right

### ■ **Operational Remediation**

- Compliance – if there is a right of notice, offer, or negotiation, giving it is an option
- Termination / amendment, depending on the right may need to be pre-signed

### ■ **Contractual Remediation**

- Closing outs
- Given the fundamental / ongoing nature of these issues, indemnity may not address



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*Managing Attorney-Client Privilege  
and Waiver*

## Elements of Attorney-Client Privilege

- Confidential communication;
- Lawyer and client; and
- Relates to legal advice

## Waiver of Attorney-Client Privilege

## *Examples of Potential Attorney-Client Privilege Waiver*

Executive team  
summarizes legal  
advice to buyer's  
team over  
conference call

Allowing buyer's  
counsel to review  
hard copy of legal  
opinion

Inadvertent  
disclosure of  
freedom to operate  
report in data room

# Common Interest Doctrine: Case Study

[Hewlett-Packard Co. v. Bausch & Lomb, Inc.](#)  
United States District Court for the Northern District of California  
April 9, 1987, Decided ; April 9, 1987, Filed  
Nos. C 84 20642 RPA, C 86 20406 RPA

**Reporter**  
115 F.R.D. 308 ; 1987 U.S. Dist. LEXIS 10394 \*\*; 4 U.S.P.Q.2D (BNA) 1673 \*\*\*; 7 Fed. R. Serv. 3d (Callaghan) 719

HEWLETT-PACKARD CO., Plaintiff, v. BAUSCH & LOMB INC., et al., Defendant  
prospective buyer of the corporation's business.

**LexisNexis® Headnotes**

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**Case Summary**

**Procedural Posture**  
Plaintiff patent owner filed an action concerning a patent against defendant corporation. The corporation provided a copy of a letter from its attorney concerning the patent at issue to a potential buyer of a part of its business. The patent owner sought a ruling that the corporation had waived its attorney-client privilege.

**Overview**  
While the litigation between the patent owner and the corporation was pending the corporation transmitted a copy of a letter written by the corporation's attorney concerning the patent to a nonparty with whom it was negotiating the sale of a part of the corporation's business. Although the nonparty was cautioned that the letter was to be considered confidential the patent owner discovered the letter and sought a ruling that the corporation had waived its attorney-client privilege by sharing the letter with the nonparty. The court held that privilege had not been waived because there was never an intent to waive the privilege, there was only a selective disclosure as opposed to a partial disclosure, and policy considerations suggested that finding a waiver could have a negative effect on business transactions and possibly promote more litigation.

**Outcome**  
The court held that the corporation did not waive the attorney-client privilege by sending a letter regarding the patent at issue in litigation to a

Civil Procedure > ... > Discovery > Privileged Communications > General Overview  
Evidence > Privileges > Government Privileges > Waiver

**HN3** **Discovery, Privileged Communications**  
Communications to non-parties can retain a protective shield if the parties have a common legal interest, such as where they are co-defendants or are involved in or anticipate joint litigation. The key consideration is that the nature of the legal interest be identical, not similar, and be legal, not solely commercial.

Civil Procedure > ... > Discovery > Privileged Communications > General Overview  
Evidence > Privileges > Government Privileges > Waiver

**HN3** **Discovery, Privileged Communications**  
Where a disclosure was in fact voluntary but not intended to create a waiver, one should look at the explicit or implicit undertaking by the recipient of the information to hold it in confidence.

Civil Procedure > ... > Discovery > Privileged

- Underlying deal between parties was failed sale of a subsidiary of Bausch & Lomb
- During negotiations, Bausch & Lomb disclosed privileged opinions of counsel to the prospective buyer
- In litigation, the patent owner (HP) sought access to the agreement
- The judge agreed that there was a common interest between because the prospective buyer could reasonably have been brought into the lawsuit had the deal closed
- Take-away: Key is articulating the existence of a common legal interest, rather than a mere common business interest

# Case Study: Common Interest Doctrine

[DS Waters of Amer., Inc. v. Fontis Water, Inc.](#)  
United States District Court for the Northern District of Georgia, Atlanta Division  
May 1, 2012, Decided; May 1, 2012, Filed  
CIVIL ACTION NO. 1:11-CV-2635-MHS

**Reporter**  
2012 U.S. Dist. LEXIS 198713 \*

DS WATERS OF AMERICA, INC., Plaintiff, v.  
FONTIS WATER, INC. and STEVE W. CARROLL,  
Defendants.

**Subsequent History:** Summary judgment granted by, Partial summary judgment denied by, Motion denied by, As moot, Motion denied by [DS Waters of Amer., Inc. v. Fontis Water, Inc., 2013 U.S. Dist. LEXIS 201648 \(N.D. Ga., Feb. 26, 2013\)](#)

**Prior History:** [DS Waters of America, Inc. v. Fontis Water, Inc., 2011 U.S. Dist. LEXIS 159706 \(N.D. Ga., Dec. 13, 2011\)](#)

**Counsel:** [\*1] For DS Services of America, Inc., Plaintiff: Erika C. Birg, LEAD ATTORNEY, Joshua Andrew Kobrin, Nelson Mullins Riley & Scarborough, LLP-ATL, Atlanta, GA; Anastasia Lewis, Seyfarth Shaw-Atlanta, Atlanta, GA; Bart A. Lazar, PRO HAC VICE, Seyfarth Shaw LLP-IL, Chicago, IL; Shuman Sohm, Seyfarth Shaw, LLP-Atl, Atlanta, GA; Suneel C. Gupta, Baker Donelson Bearman Caldwell & Berkowitz, PC-GA, Atlanta, GA.

For Fontis Water, Inc., Defendant, Counter Claimant: David Barton Black, Barton Black Law, LLC, Atlanta, GA; Kristofer R. Schleicher, Gicoama Schleicher Roberts & Daughdhill, LLC, Atlanta, GA; Tristan Blain Morrison, Smith & Liss, LLC, Atlanta, GA.

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For DS Services of America, Inc., Counter Defendant: Anastasia Lewis, Seyfarth Shaw-Atlanta, Atlanta, GA; Bart A. Lazar, Seyfarth Shaw LLP-IL, Chicago, IL; Erika C. Birg, Nelson Mullins

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**Judges:** Marvin H. Shoob, Senior United States District Judge.

**Opinion by:** Marvin H. Shoob

**Opinion**

**ORDER**

This [\*2] case is before the Court on several discovery motions. The Court's rulings and conclusions are set forth below.

**Background<sup>1</sup>**

This case is about the ownership and use of the COHUTTA mark in connection with bottled water. Plaintiff DS Waters of America, Inc. ("DSW") and defendant Fontis Water, Inc. ("Fontis") are both in the business of bottled water delivery to homes and businesses. Cohutta Water, Inc. ("Cohutta Water") was in the same line of business. Defendant Steve Carroll was Cohutta Water's chief executive officer ("CEO"), and he owned 100% of the equity of Cohutta Water.

On May 14, 1999, Steve Carroll began using the COHUTTA mark in commerce for bottled distilled

<sup>1</sup>This summary of the case is provided only for purposes of ruling on the pending discovery motions and is derived from the complaint, amended answer and counterclaims, and joint preliminary report and discovery plan. It is not a final determination of the facts.

- Underlying deal was asset purchase for trademarks
- At the time of sale, there was at least threatened trademark litigation
- Following the asset purchase, the buyer filed a trademark infringement lawsuit against a competitor
- In discovery, the competitor sought: (1) all communications regarding the assignment and (2) testimony about negotiations involving the right to sue for past damages
- Court found no attorney-client privilege or common interest privilege
- Take-away: The party opposing discovery bears the burden to prove there is a privilege



## ***Mitigating Risk of Privilege Waiver***

1. Involve outside deal counsel
2. Formalize a common interest agreement
3. Mark materials as attorney-client privilege
4. Limit dissemination, including the manner of dissemination
5. Have a back-up plan

## Presenters



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An aerial photograph of a solar farm with rows of solar panels. A white rectangular box is overlaid on the right side of the image, containing the text 'Thank you' and the company name 'WILSON SONSINI'.

*Thank you*

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