



Monday, October 25
2:30pm-4:00pm

303 - Technology Issues in Mergers and Acquisitions

Karen Boudreau
Attorney

Harold Federow
Contract and Vendor Manager
Port of Seattle

Mark Harrington
General Counsel and Corporate Secretary
Guidance Software, Inc.

Faculty Biographies

Karen Boudreau

Karen Boudreau has been an in-house counsel for a variety of companies including IBM, Oracle, GAP, Sony Electronics, Gateway, and Iomega and has consulted to Reebok, Hasbro, and Marshalls. Most recently, she was group counsel, Americas for Websense, Inc.

She has lectured on a variety of technology law topics including technology acquisition, software licensing, and e-commerce. She has also published several articles in the ACC Docket.

Ms. Boudreau received her BA from the University of Maine with high honors and highest distinction, and received her JD from George Washington University with honors.

Harold Federow

Harold Federow is a technology and IP lawyer. He is currently contract and vendor manager for the information and communications technology department of the Port of Seattle where he functions as counsel to the department, being responsible for all IP and licensing matters.

Prior to joining the Port, he was general counsel at Talyst, Inc., a maker of software and hardware to enable hospital pharmacies to improve their inventory control over medications and to better ensure accuracy of medication delivery. Prior to Talyst, he was legal counsel at Bsquare Corporation, a software consulting firm. At Bsquare he negotiated licenses and associated contracts, including negotiating with companies located in every continent except Africa. He also helped take the company public.

Mr. Federow is a volunteer attorney with Washington Lawyers for the Arts and Washington Attorneys Assisting Community Organizations. In addition, he is a supervising attorney for law students at the University of Washington's Entrepreneurial Law Clinic. He is the co-inventor of one patent and the author of one book, *Quality Practices and the Law*.

He received his JD from the University of Maryland. He has a Masters from the University of Washington and two BS degrees from the Massachusetts Institute of Technology.

Mark Harrington

Mark E. Harrington is the general counsel and corporate secretary at Guidance Software Inc., a publicly traded company that is a leading provider of software and services for

digital investigations and electronic discovery. His responsibilities include managing the worldwide legal affairs of the company, including operational, compliance, corporate, regulatory, and risk management.

Prior to joining Guidance, Mr. Harrington was a divisional general counsel and senior attorney with the Intel Corporation where he focused on technology, business, and mergers and acquisition transactions.

Mr. Harrington previously served two terms on the executive board of ACCA Southern California and is a current member of the ACC Docket Editorial Advisory Board and programs chair of ACC's national Corporate and Securities Law Committee.

He received his JD from Southwestern Law School and his BA from UCLA.

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*Technology Considerations
 in M&A Transactions:
 Part 1– Pre-Deal*

Karen Boudreau, Harold Federow, Mark Harrington

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What is being bought?

- 1) Whole company
- 2) Division of (large) company
- 3) Size/scale matters
- 4) Form of purchase
 - Asset
 - Stock

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Relating to Outside Counsel

- 1) Relate to them early
- 2) They are deal makers and documenters
- 3) In-House Role

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Having a heart-to-heart with your outside counsel early on in the process is key, explaining to them the strategy behind the transaction, what's important and what's not, etc., can make a huge difference and ultimately result in a more efficient process. Too often we get pulled in after a term sheet has already been negotiated and are asked to start drafting documents, without any context.

Mike Erickson, Summit Law Group

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Technology is Everywhere

Backend systems
 Know How
 May be purpose of transaction
 Software
 Biotech
 What remains behind may also be important

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Dealing with Technology

- 1) Inventory systems—software/hardware
- 2) Understand the licenses.
- 3) Is any software custom?
- 4) What about maintenance/support?
- 5) Define essential technology
- 6) Do acquiror/acquiree systems integrate?

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- 7) Are acquiree reps/warranties needed?
- 8) People Issues
- 9) Information Control issues
- 10) Regulatory issues
- 11) Public Company

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**Technology at Center of
Transaction**

- 1) What is owned and who owns it?
- 2) People issues
- 3) Third Party Agreements
- 4) Technology Valuation
- 5) Larger company IP holding subsidiary

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**Technology at Center of
Transaction**

- 6) What indemnities—both directions?
- 7) Technology related litigation (& threatened)
- 8) Pending IP registration applications

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Technology Considerations in M&A Transactions: Part II: Negotiating and Closing the Deal

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Capturing Diligence on Paper

- 1) Purchase Agreement defines classes of technology
- 2) Each class is scheduled as an exhibit to the Agreement
- 3) Purchase Agreement should correlate and address risks identified in diligence
- 4) Key focus is proper and thorough identification and assignment of IP

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Identify Deal Team Division of Labor

- 1) Internal clarity on role of in-house counsel (mgmt, stakeholders)
- 2) Distill "material" IP components that make up the essential purpose of the deal
- 3) For internal IT technology, diligence should identify possible post-close cost savings and favored pricing terms available to buyer
- 4) Identify role of outside counsel on IP and Technology:
 - review patent portfolio
 - International IP concerns
 - For material IT assets (i.e. CRM licenses) identify assignment consents needed

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IP/IT Assignment Schedules

- 1) General IP assignment as to trade secrets, confidential info etc...
- 2) Specific IP assignments regarding Trademarks, Licenses (inbound and outbound), Copyrights, Patents (inbound and outbound), Contracts, Domain Names, Moral rights, Employee Inventors
- 3) For IT technology, what is required to keep the business going on day 1.
 - Hardware, software constraints towards a smooth integration

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IP Warranties

Representations/Covenants

- a) as to original IP authorship (verify employee invention assignments)
- b) no pending IP claims unless otherwise disclosed
- c) Rep as to sublicenses made; royalties owed or payable
- d) watch for/address any "exclusive" grants of IP to others
- e) analyze any territorial restrictions of licenses

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IT Technology Warranties

- 1) Rep against seller critical Defects in "processing" of essential business operations or ability to make money/products
- 2) Any current or past disabling code, malware or known network vulnerabilities
- 3) Rep against open source code unless disclosed
- 4) Rep against network breaches or theft of data/IP
- 5) Rep that key IT contracts do not require consent of vendor unless disclosed to buyer **and Seller to obtain all consents b/f closing**
- 6) Consider requiring a data map or schematic and rep as to the "world of seller" data and systems
- 7) Consider document retention practices of seller and any in-place litigation holds related to electronic discovery and data

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IP Indemnities

- 1) Analyze what happens with post-transaction IP problems
 - Infringement claims (design a repair, replace remedy)
 - Assignment issues (assess failure of assignment)
 - Pending IP applications (relative value; work needed)
- 2) Define "Excluded Liabilities" to exclude possible problems from what you are assuming but make sure they are covered for indemnity purposes
- 3) Indemnity should run at least as long as Warranty and preferably as long as it will take buyer to harness value

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IT Technology Indemnities

- 1) Indemnity Protection that assets purchase by Buyer are in good working order for a period of time after Close (see Working Capital adjustment or Escrow)
- 2) Indemnity Protection that seller had necessary rights to use the hardware and software on its network and systems. Repair, Replace remedy could be paid for out of Escrow if claims arise.

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Closing Condition or Integration Issue?

- 1) Define which assignments are required or inherent to value
 - Is it possible to get clear title?
 - 3rd party IP components; open source; joint developments
- 2) Which can be done post-close(if assignment is not practical analyze cost-benefit of termination and creating new contracts **or having seller's products come under buyer's agrs.**)
- 3) Get management buy-off on who will own what processes of integration post-close (IT systems, security)

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Insurance

- 1) Which IP concerns might have coverage? Does seller insurance transfer to buyer or does buyer insurance cover seller issues? **Almost no one has IP ins.**
- 2) Determine if "gap" coverage is needed where buyer's insurance does not cover assets or business of what is being purchased (e.g. software co. buys hardware co.)
- 3) One of the most non-adversarial ways to deal with a post-close problem.

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Escrow Account – Private Transaction

- 1) Another form of risk mitigation between parties if an IP or other problem occurs, post close
- 2) Earn Outs – method to enforce buyer's rep about value of IP

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Post Close SOW

- 1) As part of deal, create a post-close Statement of Work that buyer and seller will work towards to meet deadlines to ensure successful integration (assignment, patent issuance, IT systems)
- 2) Working Capital Amount or Escrow pays for costs/problems with failure to meet post Close milestones

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Communicate liability, warranty and indemnity limitations clearly to C-Levels and Board

Map deal reps to LOL in the event of problems (i.e. rep of ownership of IP may be unlimited but rep that an IT asset works may only run to deal value or less)

Create a "timeline" of important post-close dates

- expiration dates of warranties (if applicable)
- important dates of material contracts purchased
- earn-out timelines
- SOW milestones for integration

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Pre Close Tasks -- People

- 1) Meet the people involved in the IP and IT organizations.
- 2) Obtain as much information as possible about how the organization works and its history
- 3) Decide who will be staying and who will be leaving – be open and honest
- 4) Define clear responsibilities for IT and IP post close

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**Technology Considerations in M&A Transactions:
 Part III: Preparing for and Closing the Deal**

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Pre Close -- Assets

- 1) Locate and document all the hard assets that will be transferred
- 2) Locate all the files that need to be moved
 - IP Legal Files but also business files
 - Look in Marketing, Finance and Eng.
 - IT Legal Files but also IT files
 - Confirm these against the schedules

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Pre Close – IT Infrastructure

- 1) Verify that the buyer's and seller's systems can interface including email
- 2) Have access to seller's systems including email and documents on Day 1
- 3) Verify that all licenses, etc. are transferred
- 4) Decide how to handle returned equipment
- 5) Establish procedures to avoid assets "growing legs"

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Closing Day

- 1) Have an attorney and/or Senior Executives on site
- 2) Have a process for checking out employees who will be leaving
- 3) Verify that all assets are returned
- 4) Verify that all files are in tact
- 5) Remove access for EEs who are leaving

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Post Close

- 1) Move files to central legal location
- 2) Verify that the location of all hard assets
- 3) Make sure that information on PCs, etc. is backed up and deleted
- 4) Transfer hard assets not needed to liquidator
- 5) Make sure that procedures for day to day operations are communicated

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Summary

- 1) In most cases the transaction is meant to have a going concern upon closing – keep that in mind
- 2) Knowledge capital is as much or more important than intangible or tangible assets
- 3) Make sure that the transaction does not interfere with the operations of either party

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QUESTIONS



IP DUE DILIGENCE ISSUES IN M&A TRANSACTIONS

A checklist of what to look for and what questions to ask when conducting intellectual property due diligence in connection with an M&A transaction.

This checklist covers typical areas of legal due diligence conducted by an intellectual property (IP) legal team in connection with an M&A transaction. It does not cover financial due diligence or valuation issues, which are typically handled by accounting firms or specialized IP valuation consultants. It also does not cover substantive patent due diligence (such as patent validity, enforceability and freedom to use), which must be conducted by specialized patent counsel, or the technical aspects of software and hardware integration, which is typically handled in a parallel diligence process by the target and buyer's IT personnel.

This general checklist applies to all types of companies and industries. Specific additional diligence may be necessary depending upon the type of transaction, the target's industry and the materiality of the IP involved. For example, diligence conducted for a:

- Comic book business may require consideration of the creation and authorship of the characters.
- Movie business may involve the calculation of the remaining years of copyright protection for various films.
- Radio station may require inquiry as to the protection of its call letters.
- Software company may require consideration of ownership claims to the first version of a key computer program on which the current version is based.
- Hardware manufacturer may require review of mask works, that is, rights that relate to semiconductor chip products subject to the mask work provisions which follow the US Copyright Act.
- Mail order business may require investigating protection of its vanity telephone number.
- Biotech company may require inquiry into the validity and enforceability of its patents or its freedom to operate and may also require review of materials relating to patent term extension, restoration and listing.

OBJECTIVES OF IP DUE DILIGENCE

Like any diligence effort, the importance of IP due diligence when you are representing the buyer is to obtain information about the nature and quality of the target's assets so that the buyer can assess the risks and, in extreme cases, adjust the price, seek indemnification or determine not to proceed with the transaction. The target may also conduct its own IP due diligence to assist it in preparing the purchase agreement's disclosure schedules.

IP due diligence typically focuses on identifying:

- Who to interview and what documents to review.
- Registered and unregistered IP assets owned and used by the target.
- Materiality of the IP.
- Soundness of title.
- Protection of trade secrets.
- Agreements governing the acquisition and licensing of IP.
- Offensive and defensive claims, suits and settlements involving IP.

IP due diligence may also include a review of the target's privacy and data security programs.

PRELIMINARY CONSIDERATIONS

TRANSACTION STRUCTURE

Before getting started, identify the transaction structure, that is, whether it is an/a:

- Asset purchase.
- Stock sale.
- Reverse or forward merger.

Asset sales require more detailed schedules of IP to help ensure that no IP assets are left behind and also require IP assignment documentation in recordable form. Asset sales and forward mergers are also more apt to trigger

anti-assignment clauses in the target's license agreements (see below *License Agreements*).

IDENTIFYING WHO KNOWS ABOUT IP ISSUES

Often the general counsel is the main contact for diligence even though he or she is not necessarily most knowledgeable about IP. The target's chief information officer (CIO) may know the most about software licenses. The target's outside IP counsel may be best able to generate schedules of IP registrations or address pending litigations. An assistant counsel or human resources person may know about any invention assignments with employees and may be able to provide copies of employment manual sections. At the start of the diligence exercise, the IP due diligence team should learn the following:

- ❑ Who are the relevant sources of information on IP matters (that is, in-house counsel, IT personnel and outside counsel)?
- ❑ Does separate counsel handle the prosecution and enforcement of patents versus trademarks, requiring multiple diligence inquiries?
- ❑ How long has each involved party been handling the target's IP issues? (Several sources may be relevant for historical information, for example, regarding title history, old claims or settlements.)
- ❑ Is there separate IP counsel that handles IP-related agreements?

LOCATION OF RELEVANT DOCUMENTS

Even where a data room exists, IP-related documents can be overlooked. For example, you may need to obtain software-related materials separately from the target's IT staff. Patent prosecution files rarely leave outside patent counsel's offices. In addition, the schedules of IP in data rooms may be outdated if more than a month old. An endorsement contract which grants publicity rights may not have been included in the data room if not responsive to a

particular due diligence request. Therefore, it is important to scope out the location of key IP documents in the initial phases of your diligence review.

MATERIALITY OF IP

It is important to understand how material IP is to the target business to determine the level of detail and the areas of particular focus for the IP due diligence review. The target's determination of materiality may be based on non-IP specific factors, such as current sales and planned areas of expansion. Concerning IP-specific factors:

- ❑ If the target's house mark represents a significant portion of the target's value, then a priority is to focus on the registrations and claims regarding that mark. Consider ordering an outside availability search of that mark from a third party search firm to see how unique it is or whether infringers are using it.
- ❑ If the buyer's objective is to expand the target's house brand into new product lines, then consider conducting searches for the availability of the mark in key areas of expansion.
- ❑ If a large volume of IP exists, it is important to know which items to focus on. For example, thorough diligence and title searches may not be practicable if the target owns several thousand patents. One possible approach is to search the material IP, if known, and conduct a random spot check of other disclosed IP items.
- ❑ If the target has an international IP portfolio, consider making the same materiality judgment on a country-by-country basis if it is not cost effective to engage in a full diligence exercise everywhere. Consider whether and to what extent to involve local counsel from these jurisdictions to review the target's foreign IP rights.

SHARED INTELLECTUAL PROPERTY

The issue of shared IP can be one of the stickiest IP issues in M&A transactions. Early on, the parties should determine whether the target and its remaining corporate group use

the same IP and whether they want to continue to do so post-closing. If so:

- ❑ The parties must put in place licensing or joint ownership arrangements. Each party will likely prefer to be the licensor for a host of reasons, including minimizing the risk of losing the use of IP, breaching the license, or violating quality control standards, a legal requirement for a valid trademark license. Joint ownership arrangements may seem more appealing than licensing arrangements although the agreements can be equally restrictive. In any event, joint ownership is not possible in most trademark situations.
- ❑ If the seller or target only needs to use the other party's IP for a limited time after the closing (for example, to adopt new names or sell off existing inventory) a transitional license can be put in place at closing.
- ❑ If the seller and target are sharing software-related services, this will typically be covered in a "transition services agreement" where the seller and/or target will continue to provide certain programs or services to the other party (for example, payroll or telecommunications) until it can substitute in its own services or obtain these services from a third party. However, some third party software licenses prohibit the use of the licensed program for the provision of services to others. Further, sometimes the seller will need to receive transition services back from the target's buyer. This is also handled through a transition services agreement.

>> For a standard agreement requiring the seller of a division or business line to provide transition services to the buyer following the closing, search [Transition Services Agreement](#) on our website.

IDENTIFICATION OF IP ASSETS

To assess the time and manpower required for diligence at the outset, identify the IP assets. Broadly, you should ask the target's representative to identify the quantity, materiality and jurisdiction of protection for the following:

- ❑ Patents, patent applications and patent-type filings such as certificates of invention.
- ❑ Trademarks, service marks and certification marks (such as Underwriters Laboratory's "UL listing"), both registered and unregistered.
- ❑ Fictional name filings, such as registered "doing business as" or DBA names.

- ❑ Internet domain names, including the registrar, and identification of the company's primary websites.
- ❑ Software and databases.
- ❑ Registered and material unregistered copyrights, including any software and databases, and the nature of these copyrights (that is, for advertising, manuals, videos and so on).
- ❑ Trade secrets, that is, a description of their general nature.
- ❑ Rights of publicity, such as the right to use celebrities' names and likenesses.

A detailed schedule of IP owned by the target listing applications and registrations (and in some cases, material unregistered IP) will likely be required in the purchase agreement.

OWNERSHIP OF IP

RECORD OWNERSHIP

It is important to find out whether the target owns the IP it purports to own. Often, the target business may think it owns IP when it is actually still standing, as of record, in the name of a previous owner or related company. Staleness or gaps in the chain of title should be corrected while the parties are still cooperating and memories have not faded.

Another inquiry is whether the target has recorded any licenses in the US Patent and Trademark Office or US Copyright Office. Exclusive licenses of copyrights are considered transfers of ownership under the US Copyright Act. Therefore, a copyright licensee risks losing its rights to a subsequent *bona fide* buyer if its exclusive license is not recorded. In contrast, the same does not hold true for patent and trademark licenses, unless the grant of rights is so complete as to be equivalent to an assignment.

Some countries' IP laws (not the US) require that licenses be recorded against the registrations which are being licensed. Confirm that all "registered user" requirements have been met with respect to foreign licenses.

LIENS

Liens may have been recorded in the relevant IP registry against the target's patents, registered trademarks or registered copyrights. These liens can cloud title, even if no longer effective. As with other title defects, the buyer should require that releases be obtained and recorded prior to closing when the parties are most motivated to do so.

SEARCHES

An IP due diligence program often entails confirmatory searches of the records of IP registries that are publicly available online. The items on the IP disclosure schedules are checked against the official registry records to confirm the:

- Accuracy of the disclosed information.
- Status of each item (registered versus abandoned or expired).
- Date of expiration, for example, for issued patents or upcoming renewal dates for trademark registrations.
- Current record owner.

Alternatively, or in addition, IP due diligence may include searches using the target's name to see if any items standing in the name of the target business have not been identified by the target. This is more important in an asset purchase because any item not identified on the disclosure schedule is at risk of being left behind, despite a "further assurances" clause in the purchase agreement.

ACQUISITION OF IP

The way the target acquired its IP can be critical to its claim of ownership:

- Although rules vary by type of IP, if full-time employees created the IP in the scope of their employment, the target likely owns such IP. In the US, patents must initially be filed in the name of the inventor, so the target must have a means of compelling the employee to execute a written assignment to the company.
- An IP due diligence program should include a review of any representative forms of employee invention assignments and confidentiality agreements, as well as obtaining the details of the target's use of these forms (for example, time periods of use, whether any employees failed to sign them and so on).
- IP created by a consultant or independent contractor must be assigned in writing to the company. It is important to confirm that this is the target business's practice.
- If significant target IP was acquired from a third party under an assignment, a review of the assignment may be necessary to ensure that the transfer was complete and no conditions on ownership or use of the IP exist.
- IP created under a joint venture may be jointly owned or allocated to one party or the other.

IP PROTECTION AND ENFORCEMENT PROCESS

An interview with the target's representative is very helpful in learning the target's approach to IP protection and enforcement. For example:

- Does the target register every mark (or variations on that mark) or apply for all patentable inventions, or only the most material ones?
- Does the target register marks across many classes of goods in contemplation of line expansions?
- What diligence is done before adopting or applying for new marks? Are availability searches performed?
- Are searches for possible patent infringement done before introducing new products of a technical nature?
- Does the target aggressively protect its IP? Does it subscribe to any "watching services" which would identify potentially infringing trademark applications filed by third parties or uses of its marks on the internet? Does the target readily send out "cease and desist" letters or only in the most egregious instances?
- Has the target experienced recurring registrability problems for certain marks (for example, marks that are found unregistrable because they are surnames, slogans or merely descriptive)?

MARKING PRACTICES

A comprehensive IP due diligence program should include inquiry into the target's marking practices and evidence of usage. Using IP designations, such as ® for registered trademarks, © for copyrighted works and including the patent number on patented items is recommended to:

- Defeat certain defenses to infringement claims.
- Collect maximum damages for infringement.
- Put the world on notice of the protected status of the name, product or work.

TRADE SECRET PROTECTION PROGRAM

Trade secret protection can be claimed in just about any confidential information that has economic value to the owner, such as software, customer lists, know-how, recipes and marketing plans. Reasonable steps to maintain the secrecy of trade secrets are required for their enforcement. IP due diligence should therefore include an inquiry into the steps the target takes to protect its trade secrets, including, for example:

- Does the target routinely use confidentiality agreements when disclosing secrets to third parties? Conversely, has the target entered into confidentiality agreements requested by third parties that may limit the target's use and disclosure of the third party's information?
- Does the target ensure that only a few key people know sensitive company information? Are computers with sensitive information password-protected?
- Are physical steps taken to protect secrets (for example, locked drawers, storage off-site and so on)?
- Has the target ever experienced loss of trade secret protection or disclosure of a trade secret by an employee?
- In addition to triggering a change of control provision, if the transaction is an asset purchase, it will likely trigger an anti-assignment clause.
- Both forward and reverse mergers will trigger a change of control provision and,
 - for a forward merger, recent case law suggests that it will also be treated as an assignment with respect to IP licenses, possibly triggering an anti-assignment provision (see *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009)). For more information, search [Cincom](#) on our website.
 - for reverse mergers, there is a split of authority. An unpublished 1991 decision in California treats the transaction similar to a forward merger for purposes of an anti-assignment clause in a software license (see *SQL Solutions, Inc. v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at *1 (N.D. Cal. Dec. 18, 1991)), while other cases find that no assignment has occurred (see *PharMetrics, Inc. v. Source Healthcare Analytics, Inc.*, 21 Mass.L.Rptr. 526 (Mass. Super. Ct. September 5, 2006)).

LICENSE AGREEMENTS

A thorough due diligence program includes a review of material agreements to which the target is a party. The most significant agreements from an IP perspective are license agreements. License agreements under which the target is the licensor are important because they encumber the target's use of the subject IP, presumably in exchange for royalties. License agreements under which the target is the licensee represent rights to use third party IP in the target's business.

Licenses of IP can appear in agreements that are not necessarily identified as "license agreements". For example, the following types of agreements often include licenses:

- Research and development contracts.
- Joint ventures.
- Consulting agreements.
- Co-marketing arrangements.
- Settlements.
- Manufacturing arrangements.
- Distribution agreements.
- Software development agreements.

Agreements with celebrities for endorsements or use of their names and likenesses are also similar to license agreements.

The most important item to look for in license agreements is whether, and to what extent, the target's licensed rights will be adversely affected by the transaction. For example:

- If the transaction is a stock purchase, provisions that terminate the agreement upon a change of control are relevant.
- If the target's rights are likely to be lost due to a change of control or anti-assignment clause, how material are these rights to the business? For example, if a software license will be forfeited, does the buyer have a comparable program? Is the software off-the-shelf and easily replaceable or is it heavily customized?
- If the licensor's consent is needed for license rights to continue post-closing, what is the relationship like between the licensor and licensee? Would consent be easily obtainable without additional consideration? Is the licensor a competitor of the buyer, therefore posing a challenge to obtaining such licensor's consent?

Other important terms to consider in license agreements include:

- Parties to the agreement.
- IP involved.
- Territory.
- Exclusivity and non-competes.
- Field of use.
- Royalties (payable or receivable) and other financial terms.
- Term (expiration date) and termination rights.
- Whether the target is providing or receiving any indemnities or guarantees.

- Governing law and jurisdiction.
- Any other provisions that could adversely impact the transaction or future operation of the target business, such as most-favored nations provisions.

The use of open-source software is becoming increasingly common. Open-source code is distributed under a host of public licenses, such as the General Public License (GPL) version 2.0 or the Apache License version 2.0, among others. Each open-source license has its own unique terms with unique implications regarding the public distribution of code produced under such licenses. Ask whether:

- The target utilizes any open-source software, and, if so, under which license. The license terms should be reviewed for material issues in connection with the target's use of such software.
- Whether any proprietary software contains open-source code. In particular, this is important if the relevant open-source license terms (such as GPL version 2.0) require that distributions to third parties of a software program that contains or is derived from such open-source code must be at no charge and made under the same terms as such open-source license (also known as a "copyleft" license). For a Practice Note providing more information on open-source software, search [Open-source Software](#) on our website.

Due to its highly technical nature, review of open-source issues may require consulting IT and open-source specialists.

IP-RELATED DISPUTES

IP-related disputes can occur in a court or in an IP registry where an examiner or third party can raise objections to the registration of a mark or issuance of a patent. Other IP-related disputes can be brought by royalty-auditing agencies, such as:

- Copyright Clearance Center (CCC).
- Business Software Alliance (BSA).
- Broadcast Music Inc. (BMI).
- American Society of Composers, Authors and Publishers (ASCAP).

The target should identify in the disclosure schedules any pending or threatened litigation, cease and desist letters and registry actions or audits concerning material IP assets (or all IP assets, if feasible). The reviewer should consider the:

- Parties to the dispute or action.
- Nature of the claims.
- Materiality of the IP involved.
- Products or services affected.
- Stage of the proceeding.
- Remedies sought.
- Worst case scenario and likely outcome.

If material IP disputes are pending or threatened, consider consulting IP litigators to assist with the investigation. Additionally, to the extent that legal opinions have been rendered to the target regarding infringement, it may be useful for the buyer to review them. However, the desire to review legal opinions must be balanced against the possible waiver of attorney client privilege that may occur.

It is also important to inquire about any:

- Settlement agreements.
- Consents to use (for example, co-existence agreements).
- Covenants not to sue.

These may affect the target's use of its IP, include cross-licenses, or impose restrictions on using the IP in line-extensions, among other limitations. They also may not be transferable.

PRIVACY AND DATA SECURITY

Although privacy and data security diligence is not necessarily IP-specific, the IP legal team is often tasked with covering these areas.

WEBSITE TERMS OF USE

A thorough diligence review should include the target business's terms of use (also known as the terms of service), both the current terms of use, as well as any previously-used terms, governing the target business's websites. If the business is mainly an online business, especially one in which website users submit content for posting to the website, a more careful analysis of the terms of use is required.

When reviewing the terms of use, pay close attention to the following terms in particular:

- Content ownership.
- The target business's Digital Millennium Copyright Act policy.

- The target's liability exposure based on its website content.
- The effective date of the terms of use.
- Any provision addressing the target's rights in the event of an asset sale, stock sale, merger or other reorganization, including the target's ability to transfer personal data collected through the website. If the terms of use or website privacy policy (see below *Website Privacy Policy*) restrict transfers or sharing of such data with third parties or otherwise do not include such express permission, the target may be unable to transfer this data to the buyer.

WEBSITE PRIVACY POLICY

In addition to the terms of use, websites usually provide a privacy policy and some jurisdictions, such as California, require the use of privacy policies. This policy informs the website users about what the company does with information collected through the website, including the kinds of information collected and how the company safeguards its users' information. Often, the policy makes a distinction between the collection of personally identifiable information (PII) and non-personally identifiable information. The privacy policy may also address the target's rights to transfer or share information collected through the website in the event of a sale or other company reorganization (see above *Website Terms of Use*). It is important to note:

- The effective date of the privacy policy.
- Whether the policy provided by the target is up to date.
- The target's method for updating its privacy policy and providing notice of any updates to its website users.
- Transferability of PII collected through the website.

DATA SECURITY AND DATA TRANSFERS

When representing the buyer, it is important to inquire about the target business's general data security program and privacy policies, not just its website-related policies. This is

especially important for target companies that handle the PII of its employees, clients, customers and other third parties. The buyer should obtain information on whether:

- Any confidential business data, including PII, has been leaked.
- Any computer systems have been hacked.
- The target's PII has otherwise been improperly disseminated.
- Any other unauthorized access or use of the target's data has occurred.

Any data leaks may have legal and regulatory implications, in addition to reputation implications for the buyer. Items to facilitate this review include:

- Copies of:
 - privacy policies;
 - any disaster recovery plans for information systems;
 - the data security program and data protection policies; and
 - audit reports regarding information security.
- A schedule of any instances of noncompliance with any data security or privacy policies and any unauthorized access to the use of the target business's data.

The legal team handling this area of diligence should coordinate efforts with the regulatory diligence team. Various laws governing the collection and use of certain kinds of data and data transfers may be implicated depending on the target business's industry (as well as the buyer's industry). The banking industry, for example, is highly regulated in this area.

If information is being transferred to the US from elsewhere, consult local counsel as foreign jurisdictions may have restrictions (or a consent process) regarding these transfers. Canada and the European Union, for example, limit the transfer of PII outside their respective jurisdictions.



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Click on the link to index above or visit <http://www.acc.com/annualmeetingextras>.

The resources listed are just the tip of the iceberg! We have many more, including ACC Docket articles, sample forms and policies, and webcasts at <http://www.acc.com/LegalResources>.