



**Tuesday, October 21**  
**11:00 am-12:30 pm**

## **505 The Devil is in the Details: Nailing Down IP in Mergers & Acquisitions**

**Keith Dolliver**  
*Associate General Counsel*  
Microsoft Corporation

**Garrett Krueger**  
*Senior Attorney*  
Microsoft Corporation

**Michael Philips**  
*Associate General Counsel*  
Microsoft Corporation

**Richard R. Rohde**  
*Partner*  
Perkins Coie LLP

## Faculty Biographies

### Keith Dolliver

Keith Dolliver is associate general counsel at Microsoft Corporation in Redmond, Washington. At Microsoft, Mr. Dolliver leads the legal practice group focused on corporate transactions and securities, including acquisitions, strategic investments, and joint ventures. In addition, Mr. Dolliver supports the finance and treasury organizations at Microsoft with structured transactions; portfolio management and securities law matters; and manages the legal team responsible for Microsoft's global subsidiary structure.

Prior to joining to Microsoft, Mr. Dolliver was an attorney with Preston Gates & Ellis, where he practiced in the area of corporate and securities law, as well as technology licensing and related transactions. Mr. Dolliver was a law clerk to Judge Frank Easterbrook of the US Court of Appeals for the 7th Circuit, and before beginning his legal career, served as a legislative assistant to former US Senator Daniel J. Evans (WA).

He is a graduate of the University of Chicago Law School and Swarthmore College.

### Garrett Krueger

Garrett Krueger is a senior attorney in Microsoft Corporation's Legal and Corporate Affairs Department in Redmond, Washington. Mr. Krueger's practice focuses on investments, mergers and acquisitions, joint ventures, and other strategic transactions.

Prior to joining Microsoft, Mr. Krueger spent two years at Foster Pepper PLLC in the corporate finance practice group and two years at Cairncross & Hempelmann P.S. working on investments, mergers and acquisitions, and other corporate and securities law issues.

He is a graduate of the University of Washington Law School and Occidental College.

### Michael Philips

Michael Philips is an associate general counsel in Microsoft Corporation's Legal and Corporate Affairs Department in Redmond, Washington. His responsibilities include providing legal counsel to Microsoft's unified communications business, which is responsible for the development and marketing of Microsoft's exchange server, office communications server and related real-time collaboration and communication offerings. In his nine years at Microsoft, Mr. Philips has also supported product development and marketing for various aspects of Microsoft's server and tools business and its MSN Mobile Business, as well as enterprise licensing and consulting services offered through Microsoft's US field organizations.

Prior to joining Microsoft, Mr. Philips spent five years in the Seattle office of Preston

Gates & Ellis (now K&L Gates), where his practice focused on mergers and acquisitions and securities and general commercial litigation.

Mr. Philips received his JD from the University of Washington School of Law and a BA from the University of Colorado.

### Richard R. Rohde

Richard R. Rohde (Dick) is a partner in the law firm of Perkins Coie LLP. He is co-chair of the firm's licensing and technology group and focuses his practice on licensing, technology transfers, and the commercialization of technology. He represents clients ranging from start-ups to public companies in a variety of industries, including computer, software, online services, e-commerce, medical device, and biomedical engineering companies. He has extensive experience representing clients in connection with company formation, joint ventures, strategic alliances, private financings, licensing from universities, development of licensing programs, patent portfolio management, product distribution, intellectual property protection, and mergers and acquisitions.

Mr. Rohde is a graduate of Harvard University and the Boston University School of Law.



## Outline

- IP Due Diligence Objectives, Team & Process
- Preliminary Due Diligence
- Confirmatory Due Diligence
- Technical Due Diligence
- Mechanisms for Addressing IP DD Issues



## IP DD Team

- IP DD Team Members
  - Internal counsel for product group
  - Outside IP counsel
  - Other internal legal experts (patent, trademark, copyright, litigation, etc.)
  - Business representatives – management and technical
- Roles & responsibilities
  - Conduct deep research/analysis in area of expertise, as needed
  - Take proactive steps in advance of closing to address critical issues
  - Assist in valuation of Target
  - Draft/review IP DD reports and memos



## IP DD Objectives

- Identify the Target's IP assets (e.g., copyrights, patents, trademarks, trade secrets, products, etc.)
- Identify risks associated with those assets, such as:
  - Strength of the IP (and areas of weakness)
  - Potential litigation
  - Outstanding 3<sup>rd</sup> party commitments
  - Compatibility of biz/licensing models with Microsoft's models
- Where possible, minimize risk through appropriate mechanisms



## IP DD Process

- Understand Context of the Transaction
- Due Diligence Request to Company
- Document Review
- Technical Review
- Interviews with Target's Key Legal and IP Managers
- Issue Tracking/Resolution
- IP DD Report

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### Initial Discussions Preliminary D/D

**Description:** Introductory discussions with target. Collect available preliminary due diligence from target and publicly available sources

**Objectives:** Increase knowledge of target, gauge potential target interest, highlight areas requiring further attention, and surface potential show-stoppers

- **Preliminary Due Diligence**
- Make sure NDA has been executed.
- BG-Corporate Development driven (based on BG objectives)
- Highlight risks and areas of concern
- Consider BG/employee taint issues
- Technical review role

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### Confirmatory Due Diligence

- Outline
  - Objectives
  - Process
  - Technical DD
  - Legal DD
- Key to success: Understand the deal!!!

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### Preliminary Due Diligence

- Limit review team to a small team
- Confidential information exchanges with a Target should be conducted pursuant to NDA
- Less is More – err on the side of receiving the least amount of confidential information necessary
  - Target that volunteers too much
  - Target that volunteers too little
- Materials received from the target should be subject to restricted access
- No acceptance or review of source code
- Don't download target software products without internal legal review
- If deal dies, return or destroy all confidential materials

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### Confirmatory DD -- Objectives

- Identify target's IP assets & associated risks
- Identify target's contractual obligations and associated risks
- Identify Go/No Go issues
- Advise on closing conditions and integration risks
- Develop risk mitigation strategies

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### Confirmatory DD – Process

- Master DD checklist
- Technical DD
- Document review
- Interview Target's key legal & IP managers
- Issue tracking/resolution
- Report out
- Draft closing conditions
- Review schedules
- Integration planning

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### IP Development Practices

- IP Developed by Employees
  - Employment agreements
    - Work made for hire/IP assignment provisions
    - Non-disclosure obligations
    - Non-compete/non-solicit obligations
    - Compliance with applicable law
- IP Acquisitions
  - Assignment agreements
- Third party-developed IP
  - Development contracts
- Open Source Issues
  - Open source licenses

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### IP Portfolio

- Patents
- Trademarks
- Copyrights
- Trade Secrets
- Other (e.g., customer databases; rights of publicity)

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### Key Contract Relationships/Contract Terms

- Types of Contracts Reviewed
- Contract Terms of Interest

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### Types of Contracts Reviewed

- Inbound IP Licenses
- Independent Contractor Agreements
- Standards Body Agreements
- Outbound IP (including source) Licenses
- Distribution Agreements
- Value Added Reseller Agreements
- Maintenance/Support Agreements
- ASP Agreements
- EULAs
- Contracts Granting Exclusive Rights
- Contracts Imposing Non-Compete Obligations

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### Contract Terms of Interest

- Distribution Agreements/Value Added Reseller Agreements
  - Volume distribution & licensing programs
  - Term and termination provisions
  - Unusual pricing schemes (including those that apply to future products)
  - Reps/warranties/indemnities
  - Maintenance/support obligations
  - Exclusivity provisions
- Maintenance/Support Agreements
  - Term and termination provisions
  - Upgrades/new versions covered
  - Customer support (e.g., phone support) obligations
  - Technical support obligations (outsourced or in-house)

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### Contract Terms of Interest

- Inbound IP Licenses
  - Source or object code license
  - Scope of license grant/field of use limitations
  - Escrow rights
  - Assignability
  - Reps/warranties/indemnities received
  - Open source issues
  - Payment scheme
  - If royalty bearing, how calculated
  - Minimum commitments
  - Term & termination rights
- Independent Contractor Agreements
  - Nature & Status of the work
  - IP rights obtained (ownership or license?)
  - Reps/Warranties/Indemnities

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### Contract Terms of Interest

- ASP Agreements
  - Licensing model
  - Pricing
  - Products involved
  - Upstream license rights (do they allow ASP licensing)
  - Related hosting/support agreements
- EULAs
  - Are rights granted compatible with company approach?
  - Paper vs. electronic EULA practices
  - Reps/warranties granted

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### Contract Terms of Interest

- Other Terms of Interest:
  - Assignability of contracts (with respect to key contracts)
  - Exclusivity provisions
  - Security interests in IP
  - Data privacy practices & compliance with policies

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### IP Claims / Litigation

- Pending or Threatened Litigation
- Attorney/Client Privilege Issues
- Common Interest Agreements
- Assessing Exposure

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### Legal DD – IP Development

- Employment agreements
- IP acquisitions & in-licenses
- Work for Hire agreements
- Open source practices
- Interview key legal and IP managers
- Partner engagement model
  - NDAs
  - Feedback
  - Residuals

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### Open Source: Common Themes

- Proposed Definitions:
  - Open Source Software:
    - A license or licensing model under which **source code** is made available ('Open'), typically with broad rights to modify and distribute further; may include a host of other terms as well
    - Focus on the terms under which source code can be used
  - Community:
    - Some people also use the term OSS to refer to a development model in which volunteers work to improve and expand certain code. This development model is now more commonly referred to as "Community"
    - Focus on process of building code

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### Open Source: Common Issues

- Traditional issues:
  - Pedigree, developer taint, controlling the code
- Distribution issues:
  - Attribution requirements (e.g. BSD)
  - Downstream license requirements – mandatory or implied downstream royalty-free licenses may apply to distributed OSS code; may even permit downstream modification and redistribution of unlimited copies under acquiror's patents (e.g. LGPL, Apache 2.0)
  - "Copyleft" or "Viral" –distribution of OSS code as part of larger proprietary product may cause entire product to be governed by OSS license (e.g. GPL v2/v3), or at least modifications acquiror/target makes to OSS code (e.g. MPL, LGPL)

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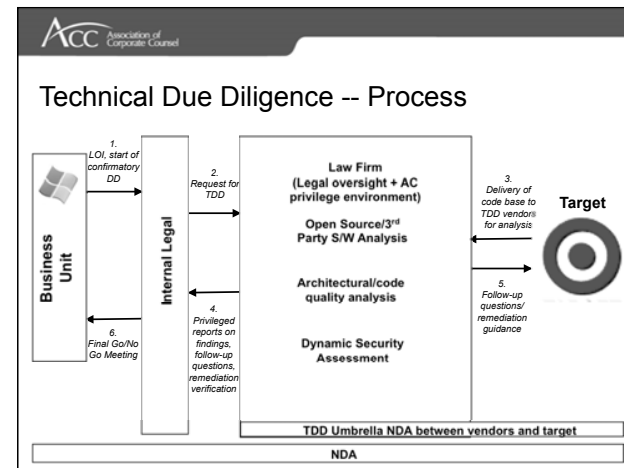
### Technical DD

- Strategies to Address Risk of Taint
  - Review as little Target source code as possible
  - Have a consultant or third party perform the source code review under carefully drafted ICA
  - OR have someone from an entirely different business unit undertake the review
  - Review the source code on the Target's equipment/at the Target's premises
  - Be specific about how the code reviewer reports findings
- NDA vs. Source Code Evaluation Agreement

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### Open Source: Common Issues

- Use of Tools
  - Depending on tool used, end product may be considered a derivative work – how is the tool licensed?
- Hosted Solutions
  - Common reliance on "hosting loophole" in GPL v2
    - Does hosted solution require distribution of bits to users?
    - What about ongoing maintenance of system?
  - Affero GPL v3 – attempt to address loophole by requiring operator of network server to provide modified source code to users
- Community Contributions
  - Examine terms of contribution to OSS/Community Projects – obligations to license IP limited to contributions or do they extend beyond?





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## Mechanisms for Addressing IP DD Issues

- Structure of the Acquisition
  - Asset purchase/merger/subsidiary issues
- M&A Agreement
  - Conditions to closing
  - Reps & warranties/indemnification
  - Pending litigation, other liabilities
  - Escrow
  - Pay attention to the disclosure schedule!
- Code Remediation
- Modify Biz Model to Isolate?
- Terminate Transaction

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## Recap

- IP Due Diligence Objectives
  - Risk management
- IP Due Diligence Process
  - Gathering information regarding the Target's IP through document review, possibly technical review, and discussions with the Target
- Technical Due Diligence
  - Work closely with internal counsel to mitigate risk
- Legal Due Diligence
  - What IP do they have?
  - How did they get it?
  - What are the key IP contracts?
  - Any litigation?
- Mechanisms for Addressing IP DD Issues
  - Structure of the deal
  - Contractual Protections (M&A Agreement/DSA)
  - Not doing the deal
- QUESTIONS????