

# The Growing Importance of IP in Corporate Mergers and Acquisitions

The New 600 Pound Gorilla?

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Old Joke:  
Q: "Where does a 600-pound  
gorilla sleep?"

Old Joke:

Q: "Where does a 600-pound  
gorilla sleep?"

A: "Anywhere he wants!"

# OVERVIEW

- I. Current Trends
- II. What is Due Diligence?
- III. IP Due Diligence
  - A. Patents
  - B. Trade Secrets
  - C. Trademarks
  - D. Copyrights
- IV. Issues to Consider
  - A. Seller or Buyer?
  - B. Chain of Title
  - C. Domestic and Foreign File Reviews
  - D. Other issues

## Current Trends

“Intellectual property and intangible assets continue to drive the world’s business.”

from “Valuation of Intellectual Property and Intangible Assets” Third Ed.

by Gordon V. Smith and Russell L. Parr, John Wiley & Sons, New York (2000), p. ix



## Current Trends

"Corporations that properly manage intellectual property and intangible assets will be in commanding positions of economic power...The have-nots will surely fade away unless they can gain access to patented technology and well-regarded trademarks...Only a proprietary technological advantage or a well-regarded trademark can save a corporation from mediocrity."

from "Valuation of Intellectual Property and Intangible Assets" Third Ed.

by Gordon V. Smith and Russell L. Parr, John Wiley & Sons, New York (2000), p. 10

## Current Trends

"The attitude toward intellectual property licensing has shifted....Recently we have seen acquisitions that were driven primarily by a desire to capture ownership of patents and trademarks. ...Initially focusing on the value of underutilized assets..., the focus has shifted and is more enlightened. Underutilization of intangible assets is no longer tolerated."

from "Valuation of Intellectual Property and Intangible Assets" Third Ed.  
by Gordon V. Smith and Russell L. Parr, John Wiley & Sons, New York (2000), p. 10

## Current Trends

“For the first time in human history the world’s wealthiest man [Bill Gates] owns only knowledge.”

from “Valuation of Intellectual Property and Intangible Assets” Third Ed.

by Gordon V. Smith and Russell L. Parr, John Wiley & Sons, New York (2000), p. 11



## Current Trends

May 1998: Volkswagen AG buys Rolls-Royce Motor Cars from Vickers P.L.C.

- VW paid \$780 million for the company
- But VW did not get the name Rolls-Royce
- BMW AG bought the Rolls-Royce name from Rolls-Royce P.L.C. for just \$66 million.
- VW stock dropped Dm3.5 per share on the day after the announcement
- BMW stock rose Dm37 per share the same day

## Current Trends

Corporate value allocations for IP and intangible assets:

H. J. Heinz	81%
Johnson & Johnson	86%
Merck & Co	82%
Microsoft	95%
3M	76%
Philip Morris	82%
Nike	82%
Proctor & Gamble	84%

# What is Due Diligence?

- A legal analysis to determine if there are any outstanding legal issues with respect to a property to be acquired by a client that could affect the value of the property or the validity of the transaction.
- Example: real estate title search

# IP Due Diligence

- can be relatively straightforward if purchasing a single patent, or very complex if purchasing an entire company.
- need to determine (i) scope of analysis to be done, (ii) issues to be investigated, and (iii) depth of investigation, in relation to the budget for the transaction and the strategic importance of the IP assets.



# IP Due Diligence

- IP Attorney and Corporate M&A Attorney must collaborate to ensure that any issues identified during due diligence are resolved and/or attended to in M/A Agreement with appropriate reps and warranties



# IP Due Diligence

- Trade Secrets v. Patent
  - Kept secret? Trade Secret
  - Applied for? Patent
- Trade Secret
  - Is it a trade secret?
    - ✓ Check confidentiality agreements
      - Term limits? (deal proposals)
      - Non-disclosure & non-use?

# IP Due Diligence

- Is it a trade secret?
  - ✓ Check confidentiality agreements
  - ✓ Check company security practices
    - Computer access
    - Physical security
  - ✓ Check handling of former employees with access

# IP Due Diligence

- Patents
  - Right to Exclude; Not Right to Use
  - Design & Utility (Utility Model)
  - Applications?
    - ✓ Check whether provisional
    - ✓ Check timing
    - ✓ Check substance with patent attorney
  - Issued Patents
    - ✓ Check substance with patent attorneys
    - ✓ Check patent details
    - ✓ Review application files
    - ✓ Foreign issues

# IP Due Diligence

- Trademarks
  - Applications and Registrations
    - ✓ Check details
    - ✓ Review files
  - Impact of local laws
    - ✓ Unregistered rights v. registered rights
    - ✓ Use requirements?

# IP Due Diligence

- Copyrights (Berne Convention)
  - Ideas v. Expression
  - Automatically arises, but not automatically maintained
    - ✓ Check important works
      - Text
      - Online content
      - Logos
      - Audio-visual material
      - Designs and specifications



# IP Due Diligence

- Copyrights (Berne Convention)
  - Ideas v. Expression
  - Automatically arises, but not automatically maintained
    - ✓ Check if it is a derivative work & confirm underlying works
    - ✓ Foreign rights (even if owner not aware of them)
- Database Rights (European Union)

# Buyer vs. Seller Issues

- For Seller: Be careful with overbroad representations
  - That relate to “all copyrights, trade dress, etc.” covering even assets that may be unregistered
  - That speak to “ownership and/or validity”; Patents??  
Trademarks (only with respect to goods in registration)!  
Copyrights (unregistered rights; derivative works; etc.)  
Database Rights (if covers EU)

# Buyer vs. Seller Issues

- For Buyer: Need as much of the detail covered as possible; capture all relevant or commercially significant IP even if not registered
  - Secure appropriate representations about ownership
  - Trademarks—Use is/was continuous, fbo owner, etc.
  - Don't forget about foreign rights if at all relevant to future of arrangement
  - Don't assume an assignment document means you successfully acquired the rights you believe you acquired!
  - Contract must explicitly include the transferal of the right to sue for past infringement.

# Chain of Title Issues – Trade Secrets

- Was everyone with access to trade secret under obligation of confidentiality (in writing?) or duty of secrecy
- Were reasonable measures taken by seller to maintain confidentiality of trade secret?



# Chain of Title Issues - Patents

- Need to perform an Assignment search in the U.S.P.T.O.
- Potential issues: Did all inventors assign their rights? Are there other co-owners not selling to the purchaser?
- Breaks or branches in the chain of title



# Chain of Title Issues - Patents

- Did the inventors sign the Assignment and date it concurrently with or after the date each corresponding inventor signed the Patent Declaration?

# Chain of Title Issues - Patents

- If any inventors did not sign Assignment, are they obligated to assign to the seller?
- Are the missing inventors still available?
- Was completed Assignment recorded in U.S.P.T.O.?
- Did Assignment also assign foreign rights?

# Chain of Title Issues - Patents

- Are any security agreements recorded in the U.S.P.T.O.? In the appropriate location in accordance with Article 9 (or 9A)?
- If so, are the underlying loans paid off? Has release been obtained?
- Are the patents already licensed? (Exclusive or non-exclusive)?
- Must include a clause in the contract regarding the disclosure of licenses as no requirement to record licenses in the U.S.P.T.O.

# Chain of Title Issues - Patents

- Any employment agreements that reserve any rights/co-ownership for the inventors?
- Any other co-ownership due to joint purchases or joint development agreements? If so, who pays for prosecution and maintenance fees?
- Any corporate name changes in the chain of title? Are they properly recorded?



# Chain of Title Issues - Trademarks

## – Trademarks

Check record owners

Are all users subject to control of record owner?

- License agreements
- Parent/subsidiary okay, but not sisters

All assignments valid?

- Naked assignments
- Assignments of ITU applications

Check domain names owned

Check foreign rights



# Chain of Title Issues - Copyrights

- Copyrights: biggest issue of ten ownership
  - Automatically arises in any individual contributing to work
    - Work for hire
    - Third party contractors: ask same questions of them until ownership can be traced from each contributing “individual”
- Registrations: record ownership
- Deposit requirements
- Use of third party material with permission?

# Domestic File Review Issues

- All USPTO deadlines timely met?
- Was a non-publication request made? If so, was the application subsequently filed in a foreign country? Was the non-publication request properly rescinded?

# Domestic File Review Issues

- Was co-dependency maintained for any Divisionals, Continuations and all foreign cases filed timely?
- Any indications of an intentional abandonment?
- Maintenance fees paid?

# Domestic File Review Issues

- Are there any imminent deadlines for pending applications? Contract should include explicit language designating which party is responsible for meeting such deadlines.

# Domestic File Review Issues

- Was duty of disclosure met?
  - Remember references cited in corresponding cases, any relevant information found in file



# Domestic File Review Issues

- Is the patent or application currently the subject of any litigation, interference, or reexamination proceeding?
- Any challenges to the validity of any of the claims? Have all claims been upheld?

# Foreign File Review Issues

- Are all U.S. provisional priority documents assigned and are assignments recorded?
- Does the U.S. provisional application include at least one claim? (Required by French law).

# Foreign File Review Issues

- Were the priority document and power of attorney filed at the appropriate time?
- Were all other due dates met (Read correspondence to determine if there are any country specific requirements, i.e. India, Hong Kong) ?

# Foreign File Review Issues

- Any imminent deadlines for foreign applications?
- Maintenance fees/annuities paid?

# Foreign File Review Issues

- Foreign duties of disclosure met (i.e. Australia, Canada, Israel)?
- Does client correspondence include reference to a disclosure that is not a §102(b) bar but could be a bar under foreign law?



# Other Issues

- Representations and Warranties
  - Consider each situation after review of due diligence
  - Representations of “title” will include all the issues of ownership and validity; may be implied in any event

# Other Issues

- Licenses transferable?
- Joint development agreements?
- Any pending defensive litigation? Any current threats to sue? Defensive opinions prepared?

# More Detailed Issues

- Preparation of clearance, infringement or validity opinions for the new business
- Keep eyes peeled for any other issues that could impact on ownership, validity, enforceability, etc.

# Thank You!