



COUNSEL TO GREAT COMPANIES

# SoftwareColorado

## Overview of the M&A Process

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# Disclaimer

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# Overview of the M&A Process

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## What is M&A?

- How does it work?
- How long does it take?
- Who is involved?

# What is M&A?

- M&A is a corporate transaction involving the sale of all or part of a company or all or part of its assets.



# How Does It Work?

- Potential buyer and target company enter into a confidentiality agreement / NDA to facilitate open, high level discussions about target's business.
- Buyer and target cut the deal at a high level, which is typically reflected in a non-binding letter of intent or term sheet that sets forth price, transaction structure, and other key terms (e.g., go-forward licensing or commercial arrangements).
- Buyer conducts “due diligence” of target.
- Buyer and target negotiate definitive transaction documents.
- The deal closes (i.e., buyer pays target (or its owners) and title to target, or its assets is transferred to buyer).



# How Long Does It Take?

- It depends on a number of factors, but generally 90-120 days from initial discussions to completion.



# Who Is Involved?

- Buyer's and target's executive management teams and boards of directors, key functional area leads (HR, IT, etc.), and internal and external accountants, attorneys, and finance teams. Sometimes investment bankers, insurance brokers, and other facilitators are involved.



# Transaction Structure

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- Two primary types of M&A transactions
- Determination of transaction structure
- Transaction structure drives due diligence and transaction documents



# Two Primary Types of M&A Transactions

## Equity Sale:

- Sale of the ownership of the target company can be done either by sale of stock or merger; in either case, there is generally **no transfer** of title to assets and target company continues as an operating entity following the closing; target's liabilities and obligations continue unaffected by the transaction; typically constitutes a change of control of target

## Asset Sale:

- Sale of the assets of the target company to buyer; involves the transfer and assignment of the target's assets (tangible, intangible, contract rights, licenses, IP, etc.); often requires third party consents (e.g., consent to contract counterparty to assign contract to buyer); target retains its liabilities and obligations unless specifically delegated to buyer; typically does not constitute a change of control of target

# Determination of Transaction Structure

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- Transaction structure is most often determined by tax objectives, but can be impacted by the difficulty of transferring and assigning assets (including the need to obtain third party consents to the transaction), the nature of the target's liabilities and obligations, and other factors.

# Transaction Structure Drives Due Diligence and Transaction Documents

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- The structure of the transaction is a significant factor in the nature of buyer's due diligence effort. Transaction documents and associated allocation of risks are determined by transaction structure. Mid-course changes in transaction structure impact all aspects of the M&A process and timeline.

# Due Diligence Process

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- What is due diligence?
- How does it work?
- Be prepared!
- Due diligence is the foundation of successful integration

# What is due diligence?

- Buyer's process to gather information about target and its business, assets, and liabilities.
- Used to confirm buyer's investment thesis and valuation, investigate potential liabilities and risks, identify impediments to the transaction (such as required third party consents), determine steps necessary to integrate the business, and confirm the disclosures in the disclosure schedules.



# How does it work?

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- Target's team assembles due diligence materials (corporate records, contracts, IP registers, etc.), which are typically stored in a web-based platform accessible by buyer's deal team.
- Buyer's deal team reviews materials provided by target and publicly-available information, asks follow-up questions, conducts telephonic and in-person meetings with target's management and other personnel as needed, and prepares due diligence reports (not shared with target).

# Be prepared!

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- For target, the due diligence process is time-consuming, invasive, seemingly never-ending and distracting.
- Front-loading the workload by anticipating buyer's information requests, follow-up questions and concerns, and having materials and responses prepared in advance is helpful.
- Buyers are likely to pull most weeds and turn over most rocks, so known deficiencies should be internally acknowledged so that possible solutions or mitigation steps can be developed and executed.

# Due Diligence is the Foundation of Successful Integration

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- Many sophisticated buyers use combined due diligence and integration teams and conduct their due diligence in a manner that facilitates post-closing integration.
- For example, information is gathered and due diligence reports are prepared in a manner that is directly useful to the post-closing integration process so critical and time-consuming tasks are not repeated.



# Transaction Documentation

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- Key components and negotiations
- Representations and warranties
- Dealing with issues
- Indemnification
- Transaction insurance

# Key Components and Negotiations

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- As noted above, the transaction structure drives the transaction documents.
- Typically, one main (“definitive”) agreement (asset purchase agreement, stock purchase agreement, or merger agreement).
- Definitive agreement includes transaction structure, price (and price adjustments), representations and warranties regarding the target and its business, assets and liabilities, affirmative and negative covenants to take actions or refrain from taking actions before or after the closing, and indemnification provisions (which typically serve as the exclusive remedy for breaches of the definitive agreement).
- The definitive agreement will typically be negotiated by buyer’s and target’s management teams (including a legal department representative) and outside attorneys, involving internal functional area personnel as needed.

# Representations and Warranties

- Definitive agreements typically include pages and pages of detailed representations and warranties that frame the condition of target and its business, assets and liabilities upon which the purchase price is based.
- Many representations and warranties call for affirmative listing of information or exceptions in order to make a statement true. Responsive information is included in disclosure schedules attached to the definitive agreement. Examples below.
  - Informational Representation: *Section 2.10 of the Disclosure Schedule sets forth a true, complete, and correct list of Target's outbound licenses of intellectual property.*

# Representations and Warranties (continued)

- Exception Representation: *Except as set forth in Section 2.11 of the Disclosure Schedule, none of Target's intellectual property is subject to any contract containing any covenant or other provision that in any way limits or restricts the ability of Target to use, exploit, assert, or enforce any of Target's intellectual property.*
- Representations and warranties generally follow the same general form from deal to deal, but the exceptions, qualifications, and level of detailed disclosure are heavily negotiated.
- Representations and warranties serve a due diligence purpose (they give buyer information about target to confirm buyer's due diligence) **and** a risk allocation purpose (they often function to assign the risk of the unknown to buyer or target).

# Dealing With Issues

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- Although most definitive agreements are more or less the same (except for structure and price), deal-specific issues are often addressed within the definitive agreement.
- For example, if target has not obtained invention assignment agreements from all key IP developers, the definitive agreement may contain a covenant requiring target to obtain those agreements before closing.

# Indemnification

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- The definitive agreement typically contains a heavy-negotiated set of post-closing indemnification provisions to provide remedies for target's breach of the definitive agreement and, often, specifically-negotiated special indemnification items (which are not tied to a breach).
- The indemnification provisions are another mechanism by which deal risks are allocated among buyer and target.

# Transaction Insurance

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- Increasingly buyers and sellers are using transaction insurance to protect against damages associated with negotiated risk allocations. These specialty insurance products can be purchased to cover a variety of risks, including those related to IP infringement.

# Completing the Deal

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- Every deal has conditions to the obligations of the parties to close. As mentioned above, these often include actions and deliverables to address issues identified during due diligence.
- For items that do not rise to a level of concern that require handling before closing, there is often some clean-up effort required after closing. This almost always falls to buyer to handle and target's employees with the historical knowledge to assist may or may not be available, so buyers need to plan accordingly.
- Integrating target and its business into buyer's business is a key part of the M&A process. Although the bulk of integration works happens following closing, it can be helpful to begin integration planning well in advance of closing and make it a part of the due diligence process.



# Post-Closing Disputes and Claims

- Post-closing disputes and claims are relatively common. Most often, they relate to purchase price adjustments and are quickly resolved; however, particularly with IP heavy companies, infringement claims that are made by third parties after closing are increasingly common and can require significant effort to resolve.



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# IP Issues in M&A Transactions

# IP Issues in M&A Transactions

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- IP and privacy due diligence
- IP provisions in M&A agreements
- Post-signing / post closing considerations

# IP & Privacy Due Diligence – Methodology

- Request and review information
  - Checklist
  - Data map
- Independent investigation
  - Patent and Trademark Office, Library of Congress
  - Privacy notices and user contracting process
  - Prior art search
  - Freedom to operate search
  - Third party claims
  - Technology/open source review
- Interviews (management and key technical personnel)

# Privacy Due Diligence – Methodology

- Purposes of privacy diligence
  - Identify sources of inbound data
  - Identify how data is used
  - Identify where data is stored
  - Identify how data is shared
  - Review privacy policies, contracts and legal obligations (GDPR, CCPA, etc.) associated with collected data
    - Does privacy policy allow the company to transfer information to a third party in connection with a corporate transaction?

# IP Due Diligence – Identify the IP

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- 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 the target's or a third party's 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

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- 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

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- A patent is generally owned by the inventor, unless the inventor assigns the invention pursuant to a written agreement
  - In some instances the inventor's employer may own a non-transferable "shop right" (similar to a license).
- 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 Due Diligence – Trade Secret Issues

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- 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

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- See ownership issues (on next slide)
- Are proper copyright 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

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- 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

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- Term – ability to terminate?
  - Will consummation of the deal give rise to a termination right or release of software escrow?
- Obligations/rights to enforce IP
- Indemnity/warranties/limitation of liability
  - Note that many IP damages are consequential in nature
- Transferability – depending on the form of transaction, an IP license may not be transferable unless the contract expressly permits it to be transferred

# IP Due Diligence – Trademark Licenses

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- 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)
  - 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
- Open source compatibility issues?
- Consider having a third party audit software for OSS issues

# IT Due Diligence -1

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- Domain Names
  - Are important brands protected?
  - Confirm ownership
- Marketing Issues
  - Meta-Tags
  - Key-Word buys
  - Linking/framing/advertising issues
  - E-Mail practices/spam?

# IT Due Diligence -2

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- 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 – 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?



# Common IP and Privacy Reps



# IP Scheduling Rep

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- 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
  - Due dates for registered IP

# Validity/Enforceability Rep

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- Each item of Company Registered Intellectual Property 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 item of Company Registered Intellectual Property is subsisting, 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.

# Ownership Rep

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- 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]

# Liens

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- 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 (ii) 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

# Employees and Contractors

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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 rights, title and interest in and to any such Intellectual Property; and, (ii) provides reasonable protection for such Trade Secrets.

# Special Representations and Warranties – Employees

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- 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

# Sufficiency -1

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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.**



# Non-Infringement -1

The Company, Company Products, Company Intellectual Property and the conduct of the Business has not, and 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.**

# Transferability

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- 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

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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]

# Licenses and Agreements -1

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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)

# Company Software

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

- “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 -2

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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

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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

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The source code for all Company Software owned by Company contains 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

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- 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

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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.

# Trade Secret Protection

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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

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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

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None of the members of the Company Group are or have 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

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- 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

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- 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

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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

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- 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

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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

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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

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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

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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

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- 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

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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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

# Questions

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Thanks!

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Thanks!

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