

Checklist For Addressing IP Issues In Mergers and Acquisitions

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1. Assess the patent-related practices of the target company.

- a. Does the target company have a concrete set of procedures in place for identifying and protecting new innovations, including business methods and systems inventions?
- b. Does the target have an IP ownership provision in place that assures that all company-related IP will be owned by the company (e.g., that requires employees to assign all patent rights related to the target's business to the target)?

2. Assess the value/quality of the target company's IP Portfolio:

Patents

1. Do the target's patents cover the key aspects of its current and planned future business? Make sure to consider business methods, unique financial products, and any unique computer or call center technology developed by the target.
2. Are the patents drafted broadly enough to prevent simple design-arounds?
3. Were any statements made during the prosecution of the patents that would lead to an unnecessarily narrow interpretation of the patents? For example, did the patent attorney who filed the patent application make any written statements to the patent office indicating

that a particular term within the patent's claims should be interpreted more narrowly than it normally would be (e.g., that the term "vehicle" within the patent should be understood as referring to package delivery vehicles, and not other types of vehicles).

4. Can the target's patents be used to generate licensing revenue (e.g., through licenses to those in non-competing fields)?

Trademarks

1. Does the target have federal trademark registrations in place to protect its key trademarks?
2. Does the target have procedures in place to police its trademarks, and to prevent the trademarks from becoming "generic"? For example, does the target company have procedures in place for making sure that others do not use its trademarks (e.g., the unique names of its key financial products) in a way that would make it unclear as to which company offers the trademarked products or services. As an example, the Coca Cola company is known for strictly monitoring any use of the trademark "Coca Cola" in conjunction with beverages and other products.

Trade Secrets

1. Does the target have proper confidentiality procedures in place to protect its trade secrets? For example, does the target company: (1) have non-disclosure agreements in place with its employees that prohibit the employees from disclosing the company's confidential information; (2) limit the disclosure of the company's confidential information to those who need to know the information; and (3) have a process in place for entering into confidentiality agreements with those parties outside the company before disclosing confidential information to those parties? In making this determination, it is particularly important to

determine whether the company's sales force complies with proper confidentiality procedures before disclosing any confidential information to potential customers.

Copyrights

1. Assess the value of target's copyrighted material (e.g., the target's copyrighted software, written materials, and artistic works).

3. Verify that the company owns all of the intellectual property referenced above.

1. Verify that assignments have been received from all inventors on patents and patent applications and that these have been recorded with the patent office.
2. Review all patent office recordations and UCC filings in the name of the company to identify any potential clouds on title.
3. Verify that the target owns any other key intellectual property.
4. In the course of steps a-c, above, review the target's employment agreements, license agreements, partnership agreements, and contracting agreements.
5. If any issues are raised in steps a-c, above, develop a plan to correct them, if possible. This typically involves having the ownership of the intellectual property rights at issue transferred to the target company (e.g., by having an employee inventor sign a standard "assignment" document transferring ownership of the employee's rights in a patented invention to the target company.)

4. Determine whether the target is

likely to infringe any existing patents in its normal course of business.

1. Review any “cease and desist” letters or any “invitations to license” received by the target.
2. Review any patent-related opinion letters rendered by the target’s patent counsel on the target’s behalf.
3. Conduct a freedom to operate search to assess the landscape of patents in the target’s field of business. This would typically involve having a patent attorney conduct a search of patent databases (e.g., the U.S. Patent Office’s patent databases) to identify any patents that may potentially cover the target company’s current or planned business activities. This will help assess the risk of the target company being sued for patent infringement in the future, which can have a significant impact on the value of the company.
4. Can any problem patents be addressed via a design-around, license, or cross-license? This process would typically involve working with a patent attorney to assess the scope of coverage of a particular patent and determining whether the target’s business practices can be modified to place the target’s practices outside the scope of the patents. If not, it may be desirable to contact the patent owner and discuss a potential license under which the target would be allowed to practice the patented technology in exchange for royalty payments, or in exchange for permission to use the technology covered by the target company’s patents (which is referred to as a cross-license).

5. Determine whether the target is likely to violate any non-patent intellectual property rights of others.

This would involve, for example, taking steps to determine

whether the target company is misusing the trademarks of others, has misappropriated the trade secrets of competitors, or has violated the copyrights of others (e.g., by using unlicensed copies of copyrighted software).

6. Assess whether the target uses any open source software and, if so, whether the target is in compliance with the terms associated with the open source software.

Open source software is software that is typically made available for use at no cost under the condition that the user comply with the terms of an open source license. Typical open source licenses require the user to preserve the original names of the authors of the software and the original copyright statement within any modifications of the software. These licenses also may require users to make any modified versions of the software available to others under the copyright terms that apply to the original open source software.

7. Obtain appropriate representations and warranties regarding the various aspects of the target's intellectual property portfolio discussed above.

8. If any issues identified in the steps above cannot be properly addressed, consider adjusting the price of the target to compensate for the unresolved

issue, or set up offsets and escrows that serve to secure the representations and warranties. If the price cannot be adjusted to properly compensate for the unresolved issue, consider not moving forward with the deal.