Schulte Roth & Zabel

White Paper

IP and IT Issues in M&A Deals

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In many business transactions, the intellectual property ("IP") of a company may be among the critical assets of value being transferred, or just a small part of the overall corporate deal. Information technology ("IT") systems of the Acquired Business will almost always be essential. Accordingly, it is important for an acquiring company to conduct a thorough "due diligence" inquiry into the identity, validity and value of the IP and IT assets owned and used by the Acquired Business.

Beyond the IP and IT representations and warranties in the purchase agreement, it is also necessary to identify and make arrangements for post-transaction rights for any IP assets and IT systems shared between the Seller and the Acquired Business. Third party IP and IT consents should be identified, budgeted and obtained. IP and IT assets don't automatically "run with the business" just because the rest of the contracts of the Acquired Business do. The rules for IP are different, and the structure of the transaction does not always overcome vendor restrictions on the "assignment or other transfer" of IP and IT licenses. There will likely be post-transaction filing requirements that should be followed to perfect the acquiring company's new ownership rights.

The following outline focuses on what steps should be taken with respect to the acquisition of IP and IT assets in an M&A context, including trademarks, patents, copyrights, domain names/websites and software and hardware rights and agreements.

I. Types of Corporate Transactions

The type of transaction should not impact what information is necessary to be captured during diligence. Because the buyer sometimes doesn't know what the form of the transaction will be at the time diligence is conducted, because sometimes the structure of the deal changes mid-stream (i.e., for tax or regulatory reasons), and because the rules for IP and IT licenses are different than for other business contracts, a buyer needs to capture all potentially relevant information regardless of the then-current deal structure.

II. Identify the Type of Intellectual Property Assets Being Conveyed

A. Trademarks

1. A trademark is a word, name, symbol, slogan or device used to identify and distinguish the owner's goods or services. The term "trademarks" generally encompasses trademarks, service marks, trade dress, logos and trade names. A trademark owner enjoys the exclusive right to use its mark in connection with certain goods and/or services and to exclude others from using the same or "confusingly similar" marks. Trademark rights derive from actual use and not necessarily from trademark registrations or applications. Trademarks can be registered federally and at the state level, but they can be valid without such registration. A trademark has a potentially unlimited life. If a trademark is severed from the "goodwill" of the business associated therewith (i.e., the public reputation and symbol of quality associated with the mark), or if use of the mark ceases, exclusive rights in the mark can be lost.

2. Examples of trademarks include: brand names; logo designs; distinctive color combinations, product or bottle shapes; and service marks.

3. Service marks — these are trademarks that are used in connection with services, e.g., mutual funds or medical consulting services. The term “trademark” is technically used only in connection with marks used on products, but many people (and this outline will) refer to “trademarks” as including service marks as well.

4. Trademarks can be registered or unregistered; if registered, certain statutory presumptions of validity apply, but statutory and common law protection is available for unregistered marks..

B. Patents

1. A patent is a time-limited monopoly granted by the U.S. (or other) government to one who invents or discovers any new and useful process, machine, manufacture, composition of matter or improvement thereof. The patent confers upon the patentee the exclusive right to preclude the making, using, selling, or importing into the U.S. of the patented invention. Until the patent issues, the inventor owns no patent rights. Patent applications must be filed in the name of an individual inventor, but thereafter may be assigned to a corporate owner. (This is one thing we check for during diligence.)

2. To be eligible for a patent, an invention must be novel, useful, and not obvious to a person of ordinary skill in the relevant field. Where a claimed new invention combines elements of pre-existing inventions, it has to be the result of more than “ordinary innovation” and do more than yield “predictable results” in order to be patentable.

3. Examples of patentable matter include: business methods, product design, and software.

C. Copyrights

1. A copyright is a time-limited monopoly granted by the U.S. (or other) government to the author of an original work of authorship that is fixed in a tangible medium of expression from which it can be perceived, reproduced or otherwise communicated. Works of authorship include literary works (including computer programs), musical works, dramatic works, pictorial, graphic and sculptural works, motion pictures and other visual works, multimedia works (including Internet web site displays), and sound recordings. A copyright owner holds the exclusive right to reproduce the copyrighted work, to distribute copies of the copyrighted work, to perform and display the work publicly, and to base other works thereon. Copyright protects the *expression* of ideas but not the ideas themselves. Copyrights can be registered federally, but they can be valid without such registration.

2. Examples of copyrightable works include: any original written and textual material such as sales literature; manuals; training aids; artwork on label designs; non-functional product designs; fabric patterns; computer software; films; and sound recordings.

3. Copyrightable material may or may not have been registered by the selling company, but either way it should be protected.

D. Trade Secrets

1. A trade secret is a formula, pattern, device or compilation of information with commercial value that is used in a business, is kept secret by the business, and provides that business with a competitive advantage over others who do not know or use the information. A trade secret owner has the right to restrict access to and use and disclosure of a trade secret. This is also essentially an obligation since maintenance of confidentiality is a prerequisite to trade secret protection. Trade secrets generally are defined and governed by state common and statutory law. No registration system exists for trade secrets. A trade secret has a potentially unlimited life.

2. Examples of trade secrets include: the secret formula of COCA COLA® soda; manufacturing know-how; customer lists; and software.

E. Other Types of IP

1. Internet domain names (hybrid trademark/contractual right).

2. Rights of publicity (the right to use an individual's photograph, likeness, voice, name, signature or other personal characteristics in trade).

3. Mask works (i.e., etchings for integrated circuits).

III. Where to Obtain the Necessary Information to Conduct a Due Diligence Inquiry

A. The Selling Company

This should be a primary source; the selling company should provide the following information:

1. Management presentation/offering memorandum: In most transactions, there is a "deal memo" put together by the management of the company and/or its investment bankers. This generally contains an overview of the company, its IP and its IT systems and is usually the first document counsel reviews in a deal.

2. IP Schedules — Lists of owned IP.

3. IP counsel — The attorneys responsible for handling the company's IP should be interviewed.

4. File histories in the United States Patent and Trademark Office ("PTO") for all trademark registrations (including extant, cancelled and expired registrations) and for all pending and abandoned applications.

5. Applications and registrations in the United States Copyright Office.

6. License agreements (both as licensor and licensee) pertaining to trademarks, patents or copyrightable material.

7. Protest letter correspondence (including claims made by and claims asserted against the selling company).

8. Litigation files.

9. Market research surveys concerning strength of the trademarks, confusion with other trademarks, whether used for litigation and/or general marketing purposes; opinion letters/memoranda on mark availability and/or potential claims.

10. Due Diligence Request Lists and Data Room Indexes.

B. Publicly Available Information

1. Counsel can obtain file histories directly from the PTO and the Copyright Office. This is often necessary where the selling company's files are disorganized, incomplete or otherwise not in good shape or if time is of the essence and seller cannot provide the relevant files right away.

2. Trademark Databases — These searches can serve as a useful "double check" on the initial information provided by the seller and can assist in making sure the seller provides each and every file that exists.

3. Counsel can do a database search for news articles about the selling company in consumer and trade publications.

4. If the selling company is publicly traded, obtain SEC filings — these often contain a lot of information about significant trademarks, patents, copyrights and licenses.

5. Internet searches and the company's website — for trademark usage, patent claims, other IP issues.

IV. Due Diligence — Trademarks

Legal IP diligence's primary focus is on ownership status; whether registrations have been secured or applications are pending; whether prosecution/renewal/maintenance deadlines have been met; whether security interests have been taken; and whether there are or have been adverse claims against the selling company's trademarks.

A. Initial Steps

1. Review the offering memorandum; ensure accurate identification of trademarks being transferred.

2. Identify any other trademarks owned by the selling company — review company catalogs, price lists, brochures, websites, advertising and promotional material; annual reports, if available.

3. Current active use of trademarks should be confirmed; any hiatus in use should be inquired into to determine the length of non-use; reasons for non-use (marks can be deemed "abandoned" under some circumstances of non-use).

4. Confirm whether marks are registered.

5. It is useful to create a form to use in connection with each discrete trademark being transferred; helps keep track of our analysis; serves as a reminder of follow-up steps; missing information.

B. Trademark Checklist

1. Confirm ownership by the selling company: can be done from looking at registrations/applications.

   - Often important to obtain "status" copy of registration from PTO which will tell the exact name of the current registrant of record.

   - Compare record owner to identity of seller — it must be exact.

2. Principal/supplemental registers: registrations for marks that are inherently distinctive are issued by the PTO on the "Principal Register"; marks that are descriptive but have been shown to have "acquired distinctiveness" can also be registered on the Principal Register. Descriptive marks that are capable of acquiring distinctiveness will only be registered on the Supplemental Register. These registrations are not as strong, or valuable, as Principal Registrations.

3. International trademark registrations: verify whether any of the registrations (in the U.S. or other countries) are issued under the Madrid Treaty or Protocol. Only companies that are incorporated or "domiciled" in a country that is a member of the Madrid System will be recognized as a legitimate owner of a Madrid trademark registration. Transferring a Madrid registration to a non-Madrid company can result in the invalidation of the subject registrations.

4. "File Wrapper History": look for anything significant, e.g., rejections of applications based on confusingly similar marks or prior art; arguments submitted by the company in opposition to rejections; letters of protest; letters of consent.

5. Oppositions and cancellation proceedings initiated: determine outcome; examine settlement agreements.

6. Prosecution, renewal and maintenance filings: confirm when Office Action responses, renewals and maintenance filings are due; have deadlines been met (and are any imminent which should not be permitted to "fall through the cracks" during the acquisition or transition period).

7. Intent-to-use applications: confirm whether a pending application is based on actual use in commerce or intent to use; there are special rules for transfer of intent-to-use ("ITU") applications; generally ITU applications can only be assigned in connection with the business to which the marks pertain.

8. Assignment history: establish chain of title; do written assignments exist for each part of the chain of title; was goodwill transferred; were the marks in use at the time of assignment.

9. Security interests: identify each one filed in the PTO; verify ones that have been extinguished; any still extant.

10. U.S. Customs documents: ask the selling company to provide documentation of any recordation of trademark registrations with U.S. Customs, if any.

11. Opinions of counsel review opinions of counsel about trademark availability, patentability, validity and/or potential claims of infringement.

12. Strength of mark/prior art/patentability: if appropriate, counsel can commission a trademark search report or prior art or patentability study to determine whether confusingly similar or identical marks or similar patents are owned by third parties; conduct a marketplace analysis.

13. Proper usage of trademark symbols: only registered marks should have the "®" symbol; unregistered marks should use a "™".

14. Design marks: ascertain whether the form of a design or logo has changed since the registration was issued; a significant change could preclude renewal or other maintenance filings.

15. What to do about unregistered marks/trade dress: there is no file history to examine, but since common law rights are geographically based, it is important to ascertain the geographic area of commercial exploitation; can also commission a trademark search report to see if others have superior or co-existing rights; consider filing an application after the acquisition.

16. Patents: with appropriate exceptions or modifications for issues that are specific to one but not the other, the forgoing list of issues applies also to diligence to be conducted for patents.

17. What to do about unpatented technology: again, there is no file history. Consider doing a patentability study if the technology is crucial; determine whether any products incorporating the technology have been or are being sold and what the date of first sale of such products is.

18. Litigation/enforcement files: review all litigation files in which the acquired company is a plaintiff or defendant in which any of the marks or patents was at issue; review protest or "cease and desist" correspondence — were claims resolved?

19. License agreements: review all agreements in which the acquired company is a licensor or licensee; confirm the exact identity of the licensor and licensee; evaluate whether agreement is assignable; are written consents required; ascertain what royalties are payable or will be received.

20. Insurance policies: useful to ascertain whether there are any insurance policies concerning intellectual property claims and damages.

V. Due Diligence — Domain Names and Websites

A. Ask the selling company to identify and provide documentation as to registered domain names and information as to how they were obtained — directly from the domain name registrar? If other than directly from the registrar; from whom were they acquired and what were the terms of the arrangement?

B. Check the web to see whether the domain names are being used for active sites; what is on the websites?

C. Consider registering variations on the domain names; e.g., reserve the .net or .org version of a .com domain name, or the same domain name with hyphens or spelled slightly differently.

D. Has the selling company received any communications from third parties challenging its use of its domain names?

E. Is the selling company aware of anyone that is using similar domain names? If so, has the company had any contact with such users? Has it investigated such users? If so, what were results?

F. Has the selling company hired an outside company to monitor use of its trademarks/domain names on the Internet by others? If not, has it taken any actions to monitor use of its trademarks/domain names on the Internet by others?

G. Who developed the website? What agreements exist concerning the creation of the website? Verify ownership of the content on the site.

VI. Copyright Issues

The significance of copyright rights to a business being acquired depends heavily on the nature of the business. For example, if the selling company is a computer software company, a publishing company, an entertainment company, or a fabric designer, the copyright assets are likely to be critical. If the company is not consumer-brand oriented or is not a "content" producer, copyright rights are likely to be less important.

To ascertain whether the selling company has material works whose value is dependent on copyright protection, it is helpful to review the company's sales brochures, catalogs and websites. Buyer can also ask the selling company to identify top revenue-producing products and services and examine whether their value inheres in having the exclusive right to publish, copy and modify the copyrightable aspects of the works. In addition, the selling company should be asked to identify any software programs it owns or is using under license that are critical to its business operations.

A. Ownership Issues

The big issue with respect to the acquisition of copyright is ownership.

1. General rule: copyright rights are owned by the author (or creator) of the work.

2. Work-for-hire: one big exception to the general rule is that the copyright in works created by employees within the scope of their employment duties will be owned by the employer. A work-for-hire will also be found where two parties agree in writing that the work will be considered a work for hire and the work is specially commissioned for use in one of nine categories enumerated in 17 U.S.C. § 101:

- A contribution to a collective work
- A part of a motion picture or audio visual work
- A translation
- A supplementary work
- A compilation

- An instructional text
- A test
- Answer material for a test
- An atlas

3. Independent contractors: if a work was created by an independent contractor for the selling company, such as a software developer, freelance graphic designer, or a business consultant, it is unlikely that the work will be deemed a work-for-hire, and the company will not be the copyright owner absent a written assignment of the copyright rights from the contractor to the company.

4. Joint works: where two authors create a work together, the work may be deemed a "joint work" under the copyright laws, which means that each creator has an ownership interest and a right to license the copyright rights in the work, subject only to an obligation to account to the other for economic benefits derived. If only one of the two creators is an employee of the acquired company or has assigned his or her rights to the company, you may have a problem exercising complete control over the copyrighted work.

   A joint work will generally be found if two conditions are present: (1) the two (or more) authors created the work with the contemporaneous intention that they be joint owners of the work; and (2) each author contributes an aspect of the work that is separately and independently copyrightable, e.g., music and lyrics — each is separately copyrightable. It is not sufficient for someone to contribute general ideas or themes, or minor editing or revisions, since this would not satisfy the second condition.

   So, in general, you should investigate whether everyone who played a significant role in the creation of a copyrightable work is either an employee of the company (and thus covered by the work-for-hire rules) or has entered into a written assignment agreement with the company.

5. Physical possession: physical possession of a copyrightable work, such as a sales brochure, a painting, a musical recording, or a software program, does not mean that the possessor owns the copyright rights. It is important to verify that the copyright rights inherent in the selling company as a result of the rules stated above.

6. Scope of copyright rights: remember that many works contain copyrightable and non-copyrightable matter. Facts and ideas are not copyrightable, but the original arrangement or selection of facts or the particular expression of an idea is copyrightable.

7. Licenses: the selling company may have the right to publish or use certain copyrighted material only as a licensee pursuant to a license agreement. All material license agreements should be reviewed, with emphasis on the following issues:

   - Is the acquired company properly identified as the licensee?
   - What are the rights conveyed by the license?
   - What are the financial terms?
   - Is the license assignable — as to works governed by the 1976 Copyright Act, an exclusive license is assignable unless the license prohibits it; different rules apply to works governed by the 1909 Act?
   - Are there any change of control provisions that are affected by the acquisition?

8. Chain of Title: if there are prior transfers and assignments, you should try to examine all past documentation to ensure that the acquired company's title is valid.

B. Copyright Term

It is important to determine the length of time during which material copyrighted works of the acquired company will be protected by copyright. Once copyright protection expires, the work falls into the "public domain" and can be copied, modified or otherwise exploited by anyone. The duration of copyright depends on when the work was created and by whom. The 1976 Copyright Act was amended in late 1998 (the Sonny Bono Copyright Term Extension Act) to provide as follows:

1. For works created after 1/1/78, the term is now:

   - Life of the author plus 70 years.

   - For joint works, the term is the life of the last surviving author plus 70 years.

   - For works made for hire, the term is 95 years from first publication or 120 years from creation, whichever is shorter.

2. There are different rules for works created but not published before January 1, 1978; works first published between 1964 and 1978; and works first published before 1964. See 17 U.S.C. § 302, 303 and 304.

C. Copyright Notice

1. For works first published after March 1, 1989, no copyright notice (e.g., © 1990 Acme Productions, Inc.) is required in order to maintain copyright rights. Use of copyright notice is encouraged in order to deter infringers, eliminate an innocent infringement defense and in order to take advantage of certain remedial provisions of the Copyright Act.

2. Copyright notice was required for all works first published between 1978 and March 1989, although there are some limited statutory "cure" provisions for works published without notice during that time period. See 17 U.S.C. §§ 401, 402, 405. Prior to 1978, a work published without proper copyright notice became public domain material upon publication, without any possibility of cure.

D. Registrations

1. For works first published after March 1, 1989, registration is not required as a condition of obtaining copyright protection. For works first published after 1978 but before March 1, 1989, registration in the United States Copyright Office is not necessary to maintain copyright rights. Copyright rights attach once the work is fixed in a tangible mode of expression (e.g., print, film, photograph). However, registration may be required for the continued existence of copyright as to these "decennial" works if more than a relatively small number of copies were published without copyright notice. If so, the work will become public domain unless it was registered prior to publication or within five years after. Registration even for post-March 1989 works is strongly encouraged because infringement that occurs after a copyright has been registered will generally entitle the successful copyright plaintiff to an award of attorneys' fees and statutory damages. Different rules apply to pre-1978 works.

2. A claim for infringement cannot be brought until a work has been registered (registration can take three to six months, although expedited registrations are available for a much higher fee if it can be shown the registration is sought in connection with an impending lawsuit). Some companies do not seek registration until there is a need to bring an infringement lawsuit, but if that practice is followed, the "late" registration will preclude the plaintiff from obtaining attorneys' fees and statutory damages.

3. Checklist for Registrations: if a company has obtained copyright registrations, these should be examined for the following principal issues:

   - Who is identified as the owner?

- Does the specimen attached to the registration match the description of the work in the registration?

- If the registration indicates that the copyrighted material was created as a "work for hire," that doesn't make it so — if the work for hire standards have not been met, the registrant may not be the true owner?

- Does the registration indicate that the copyrighted work is a derivative work based on other copyrighted material? Does the acquired company own the copyright rights in the underlying material or did it otherwise have the right to create the derivative work?

- Does the registration indicate that the copyrighted work was based on public domain material? If so, that will limit the scope of protection that will be accorded to the copyrighted work.

- When are renewals, if any, due? Imminent filing dates should not be permitted to lapse during the transition period.

- Are any liens recorded in the Copyright Office?

E. Copyright Enforcement

As with trademarks, the acquired company should be asked to provide copies of all protest letters written or received; all litigation files and all settlement agreements in which damages were paid or which restrict the right to use copyrighted works.

VII. Information Technology

A. Software

1. Identify owned and licensed software.

2. Make sure "owned" really means "owned."

3. Stand-alone vs. parent-dependent (integrated) IT systems.

4. Transferability

    - Owned by Seller and transferred to Buyer.

    - Owned by Seller and licensed to Buyer.

    - Licensed by Seller and transferred or licensed to Buyer (with consent of owner as necessary).

    - Will this license be transferred in its entirety or will the Seller try to split off the right for the Buyer to continue using the licensed IP in connection with the transferred business or portion thereof.

5. Additional contract review: the software licenses should be reviewed for additional pertinent information, including identity of the parties, restrictions as to number of users or location of users, termination rights, length of the term, required payments, termination or consent to transfer fees, choice of law, service bureau restrictions, indemnification and other non-market terms. All of these issues should be analyzed in the context of what the buyer's plans are for IT systems post-closing. Will the data center be moved? Is an outsourcing planned?

6. Vendor consents: costs of vendor consents and whether Buyer pays, Seller pays or the costs will be split or capped can be a significant issue. It is important during diligence to set an idea of what the costs of consents is expected to be, if possible (it sometimes isn't).

7. Software checklist

- Software

  – Describe the software.

  – How was the software created? By employees in the scope of employment, contractors?

  – Are there different versions of the software? if so, describe each version and the differences between versions.

  – Does the software contain portions owned by third parties? Is the software a derivative work of another piece of software?

  – Has there been a written assignment of copyright by the developer?

  – Has any assignment been recorded?

  – Has the software been registered at the copyright office? Patent application filed? Protected as a trade secret?

  – Are there any prior owners of the software, and if so, how was the software acquired from such owners?

  – Have there been any intervening owners?

- Trade secrets

  – If the software is protected as a trade secret:

    o What steps does the owner take to maintain the secrecy of the code (e.g. internal security procedures, email and document retention policies)

    o What is owner's email and document retention policy?

    o Was access to the source code restricted to those having a need to know to perform their duties?

- Employees/contractors

  – Have all employees and contractors signed confidentiality agreements? if so, has the term "confidential information" been adequately defined?

  – Have all key employees signed non-compete/non-solicit agreements? employment agreements?

  – Have all employees signed employee invention assignments and proprietary rights agreements?

- Source code

8. Open Source software

- The problem

  - Open Source software is free but imposes certain restrictions on those that wish to use it. Generally they must make their improvements and the underlying source code available to third parties, something that most software companies are typically very reluctant to do, and they are prohibited from charging their customers for the subsequent use of the software, something that businesses have also traditionally been reluctant to do.

  - These restriction apply not only to the open source code itself but to any other program into which a developer places the open source software. Companies can therefore infect their crucial revenue-producing products with revenue-killing open source.

  - The way that developers take snippets of code from programs and sprinkle them throughout a business' products and IT systems, a business may have absolutely no idea how much open source is in its products and IT systems and what its risk is on this issue.

  - Open source organizations have won some recent court cases establishing their right to insist that companies comply with the terms of the open source restrictions.

- The answer

  - Address the issue in diligence to determine if the Acquired Business is aware of or sensitive to the issue.

  - Find out if the Acquired Business keeps open source isolated in product offerings so that just the open source software, and not revenue-generating products, will have to comply with the open source restrictions.

  - Rely on the operational IT experts to assess and mitigate the risk.

    - In some cases, depending on the value of the software, acquirers will want to verify the quality of the source code. In most cases, the following is usually enough:

      - Is the source code well documented? Well narrated with logic diagrams and flow charts? Does appropriate user documentation exist?

      - Is source code placed in escrow?

B. Hardware

1. Owned vs. leased

2. Transferability

VIII. Representations and Warranties (a non-exhaustive list)

A schedule should be drafted containing a list of all trademarks, patents and copyrights (and all registrations and applications therefor) being assigned. In addition, the contract of sale may contain the following representations by the selling company:

A. All Intellectual Property is exclusively owned by the seller and is valid, subsisting and enforceable.

B. None of the Intellectual Property has been assigned, pledged, mortgaged, transferred or licensed to or from any third party.

C. Seller is not aware of any notice or claim or adjudication of invalidity, infringement, or misrepresentation with respect to the Intellectual Property.

D. Seller has not infringed upon, misappropriated or otherwise come into conflict with any intellectual property rights of third parties.

E. No third party has infringed upon, misappropriated or otherwise come into conflict with any of the Intellectual Property.

F. Seller has made all necessary filings and recordations to protect its interest in such Intellectual Property in the United States Patent and Trademark Office.

G. As to publications: none of the publications contains any libelous material or infringes the Intellectual Property rights of a third party.

H. No action, suit, arbitration, legal, administrative or other proceeding is pending, or threatened, which involves the Intellectual Property.

I. Seller is not subject to any judgment, order, writ, injunction or decree of any court of any federal, state, local or governmental agency or any arbitration which restricts or impacts the use of the Intellectual Property.

J. Seller has not entered into or is a party to any contract which restricts or impairs the use of the Intellectual Property.

K. Seller has not entered into any consent, indemnification, forbearance to sue or settlement agreement with respect to the Intellectual Property.

L. No registration relating to the Intellectual Property has lapsed, expired or been abandoned or canceled or is the subject of cancellation or other adversarial proceeding and all pending applications are in good standing.

M. With respect to rights subject to license agreement, the knowledge of the selling company, all rights derived by license do not infringe upon the rights of others and no claim is or has brought with respect to such rights.

N. There are no breaches of any IP agreements, and no notices of termination have been given in respect of same.

IX. Covenants (a non-exhaustive list)

Covenants may be appropriate in an ongoing relationship with the Target (such as an investment or a loan).

A. Maintain all IP filings by paying maintenance fees and submitting all necessary affidavits and renewals (with possible carve-out for permissible abandonment of outdated, replaced or immaterial IP upon notice to Purchaser).

B. Maintain all IP rights (with possible carve-out for permissible abandonment of outdated, replaced or immaterial IP upon notice to Purchaser).

   1. Trademarks: require the Target to continue use of its marks.

   2. Trade secrets: require the Target to maintain their secrecy.

C. Properly document its acquisition of IP rights from employees and independent contractors.

D. Police IP rights and prosecute material violations thereof.

E. Notify the Purchaser of third party challenges to and material infringements of the Target's IP rights, and provide an opportunity to participate in the resolution of such claims.

F. Use adequate notices and legends for material IP.

G. Purchaser has approval rights over the Target's subsequent IP licenses (but automatic consent is common for licenses granted by the Target in the ordinary course of business).

X. Closing Conditions (A non-exhaustive list)

A. Conditions Applicable to Buyer's and Seller's Obligation to Close

1. Regulatory approval: any required U.S. or foreign government approvals, consents, permits or notifications, including all waiting periods of time under antitrust law.

2. No suit, action, injunction or decree: no pending suit, action, restraint, order or injunction preventing the closing of the transaction.

3. Opinions of counsel: adequacy of corporate action taken in connection with transaction.

4. Transition services agreement: executed IT and/or HR transition services agreement(s).

5. IP licensing agreement: executed patent, trademark and/or copyright license agreement(s).

B. Conditions Applicable to Buyer's Obligation to Close

1. Representations and warranties: all Seller representations are true as of the Closing Date.

2. Material adverse change: no MACs have occurred since the date of signing.

3. Financing: purchaser shall have obtained necessary debt financing.

4. Third party consents: all third party consents have been obtained.

5. Environmental reports: all Phase I Environmental Reports have been obtained.

6. Employment agreements: seller shall have entered into the required employment arrangements.

7. Seller deliverables: seller must deliver certain documents evidencing the transfer of the purchased assets, audited financial statements and other corporate formalities.

XI. Post-Acquisition Steps

A. File and record assignments if trademarks, patents or copyrights are registered or applied for. Transfer domain names.

B. Apply to register unregistered marks and copyrighted material and patentable inventions (if desired).

C. Immediately docket renewal and other filing deadlines so that no filing dates are missed.

D. Rebranding the Target

In cases where the acquired company or division must adopt a new name, it is crucial to begin the process of clearing a new name as soon as possible. This process can be extremely time consuming, costly and burdensome, especially when a name must be cleared on a global basis. The new name must be cleared and appropriate trademark application filed before or at the time that the public announcement of the new name is made. Plan ahead.

XII. Special Considerations

A. Is one particular IP item crucial to the Target's business?

1. Confirm the IP item's validity, scope of rights, and economic value.

2. Does the filing adequately cover the product?

3. Can a third party easily design around it?

B. Does the Target own substantial non-U.S. IP?

1. IP rights generally are territorial. Engage foreign IP counsel early enough to provide necessary advice and documentation.

C. Does the Target own or hold material IP rights that are not registered or recorded? Consider filing appropriate applications and recordations.

D. Bankruptcy Considerations

1. When acquiring a company or assets out of bankruptcy, special care must be paid to whether consents are required where the target's key assets consist of licenses of IP.

E. If this is an asset carve-out, has a new name been cleared? Trademark applications filed? This process is very labor intensive and requires a long lead-time, especially where global searches are provided. Engage the client and the IP department early.

XIII. IP Assets: Problem Areas

A. IP Duality and Evolving IP

1. An asset often incorporates more than one type of IP element.

   Examples:

   - Computer software: the source and object code (copyright, patent, trade secret); name (trademark)

   - Consumer products: the product itself (patent, design patent, trade dress, trade secret, copyright); name (trademark); packaging (patent, design patent, trade dress, copyright)

2. An asset also can evolve from one form of IP into another.

   Examples:

   - A trade secret that is the subject of a patent application will be lost upon the resulting patent's issuance.

   - A trade secret that is the subject of a copyright application could be deemed lost upon the filing of the application unless the applicant takes appropriate precautions as permitted by the U.S. Copyright Office.

   - Upon the expiration of a patent, trademark protection may be available (but not for functional elements).

   Thus, identify and secure all relevant forms of IP.

B. Underlying IP Rights and IP Co-ownership

1. Underlying IP elements on which an asset is based can block exploitation of the asset.

   Examples:

   - Computer software: subroutine modules incorporated into the program.
   - Music and audiovisual recordings: underlying compositions, samples.

2. Co-ownership of IP assets negates a claim of exclusive IP ownership unless the co-owner has granted a "holdback" (an agreement not to exploit its rights).

C. Physical Media Embodying the IP Assets

1. Ensure that the Target (and perhaps the Purchaser) has actual access to the physical embodiments of the IP if needed.

   Examples:

   - Computer software: software inventory (for off-the shelf software); source and object code (used in all software).

     Solution: software source code escrow agreement.

   - Music and audiovisual recordings: product inventory; master tapes.

     Solution: third party production lab and vault access and/or master tape escrow agreement.

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