BUSINESS TRANSACTIONS DILIGENCE: HOW MUCH DISCLOSURE IS REALLY NEEDED?

TABLE TOPIC 2004 INTA ANNUAL MEETING
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1. Introductions/background of participants

    1. What experiences do participants bring to the table?
    2. Why were people interested in this topic?

II. The Role of IP in a Transaction

    1. Goal of transaction (e.g., enter new market, acquire strong brand, etc.)
    2. Dollar value of deal
    3. Structure of deal (e.g., asset purchase, stock deal)
    4. Timing – how much time do you have?

III. Basics of Due Diligence

    1. What does due diligence involve?
       From the acquirer's perspective:
        a. Asking questions, interviewing people with knowledge;
        b. Obtaining and reviewing relevant documents; and
        c. Obtaining information from independent sources.

       From the target's perspective:

        a. Responding to questions/interviews;
        b. Providing documents/information

    2. Reasons for due diligence in business acquisition:
        a. Establishing a valuation for a company prior to investing;
        b. Evaluating the extent of competitive advantage an IP portfolio offers;
        c. Assessing risk;
        d. Identifying consents and approvals;
        e. Informing negotiations of parties.

    3. Questions that effective due diligence should answer:
        a. What key IP does the target own?
        b. What factors impact the value of this IP?
        c. Are there third-parties who can claim that they own the IP, or that their IP rights have been infringed?
        d. Can the IP be protected, if not already?

e. Are there third-party rights that may impact ability to take advantage of the target's IP?

f. Is the IP adequately protected via registration, maintenance, contracts, etc.?

IV. Non-disclosure agreements

1. An adequate non-disclosure agreement with the Acquirer should be in place prior to the commencement of due diligence.

2. The disclosing company (target) will be concerned that any information learned will be mis-used if the transaction is not closed.

3. The acquiring company will be concerned that it will be difficult to prove independent creation/development if the transaction is not closed.

V. Timing: When should due diligence occur?

1. From seller's perspective: will want due diligence to be completed prior to signing of agreement to avoid completion of satisfactory due diligence as condition of closing.

2. From acquirer's perspective: will want as much due diligence as possible prior to signing letter of intent or agreement.

VI. General Areas of Disclosure

1. IP Portfolio
2. Review of Agreements (coexistence, license, settlement)
3. Review of IP Litigation (actual or threatened)
4. Grant of Security Interests

VII. Possible Areas of Due Diligence Disclosure for Trademarks and Domain Names

1. Samples of products, packaging, manuals, and advertising for all trademarks, trade names, service marks, corporate names, and trade dress owned by or licensed to the company;

2. Dates of use/periods of non-use;

3. Searches and opinion letters

4. Licenses (where company is licensor and licensee), joint ownership agreements, sponsorship/endorsement agreements, coexistence agreements, settlement agreements

5. List of all trademarks registered and applied for, with copies of:
   a. registration and renewal certificates or application;
   b. relevant Office Actions issued against pending applications;
   c. dates of registration/application;
   d. prior owners and description of how the trademark was acquired;
   e. Assignment documents;
   f. Country, list of current goods/services;
   g. Security interests;
   h. Confirmation of payment of maintenance fees.

6. All opposition and cancellation proceedings, or ex parte matters before the Trademark Office(s).

7. Investigations of third-party marks

8. Cease and desist letters and other enforcement/policing efforts

9. Information sufficient to review litigation (brought by or against company) on the issue of infringement, dilution, false advertising, unfair competition involving marks owned or licensed by company; also any litigation relating to any IP agreements

10. Objections received from third-parties

11. Domain name registrations and threatened or pending domain name disputes

12. List of common law trademark uses

VIII. Answering the Question: How Much Disclosure is Enough?

1. Depends on the nature of the transaction and the companies involved.
   a. How important is the IP to the transaction?
   b. Types of companies:
      i. Publisher/news organization-copyrights are important
      ii. Chemical/pharmaceutical companies-trade-secret issues may be important
      iii. Biotech-patents are likely to be important
   c. Level of IP due diligence should be appropriate to the deal, considering overall value, importance of IP, and risk averseness of the parties.

2. May want to limit access-only certain members of the due diligence team can review, or hire outside

3. Protecting attorney-client privilege
    a. Often protected by "community of interest" in the U. S.-when the companies have identical legal interests in the subject matter, the privilege is said not to have been waived.
    b. Additional protection:
        i. Written request for advice from client;
        ii. Exclude third-parties from interviews/information gathering
        iii. Include a "whereas" clause in the agreement to establish community of interest
    c. Make sure you understand the scope of the privilege in any non-domestic jurisdiction.

4. Remember – if target doesn't disclose and acquirer learns of it, acquirer may lose trust and scrutinize in future.

5. Understand and Review your own disclosures!
    a. This allows you to craft the representations and warranties to limit the seller's exposure.
    b. Important to understand the implications of your disclosures before disclosing.

6. Goals: Minimize chances of future litigation
    a. Don't delay closing

VIII. Further discussion/sharing experiences