Avoiding IP Litigation:
10 Diligence Considerations for Mergers & Acquisitions

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Entities involved in a merger or acquisition are often targeted by IP litigation. Would-be plaintiffs understand the significant additional pressure that a pending litigation puts on the deal, and hope that this pressure will result in a quick and sizable settlement. Further, an M&A deal involves significant legal work and diligence, and this diligence must cover the soon-to-be combined IP and IP-related procedures of the entities involved. Risks should be identified and mitigated. The following diligence considerations will help reduce the risks of future IP litigation and better position the legal team, should IP litigation erupt during or shortly after the M&A process.

1. Inventory registered IP

All patents, trademarks, and copyrights (both applications and those already issued) must be identified and documented. Importantly, the surviving entity's ownership rights or other rights to use this registered IP must be confirmed and documented as well.

2. Trade secrets

For non-registered IP, such as trade secrets, verify that both ownership and protective measures are in place to maintain trade secret status. For example, if source code maintained as a trade secret was developed in part by an independent contractor, there must be some transferable assignment in favor of the contributing entity, and the deal documents must properly transfer that IP to the surviving entity. Further, evaluate and document what protective measures the contributing entities have taken to protect the confidential status of their trade secrets. Ensure that the surviving entity will maintain or enhance these procedures.

3. Consider impact of recent arrivals or departures of key personnel

M&A transactions often involve the turnover of key personnel. The loss or addition of key personnel can lead to post-M&A IP-related litigation. For example, R&D groups may be consolidated, which often results in key technical employees leaving or being asked to leave. These employees often carry knowledge of many of the surviving entity's key trade secrets with them to a new employer. Alternatively, the surviving entity may attract new managers to head new divisions or R&D efforts, and these new hires may have knowledge of competitors' trade secrets. Such employee-related IP risks are not exclusive to the M&A context, but there is a danger that the associated risks can be lost in the overwhelming activity of the ultimate M&A transaction and post-deal consolidation. These risks are real, and must be identified and mitigated.

4. Vet IP licenses for transferability requirements

Multiple IP licenses will need to be transferred to the surviving entity. Often these licenses have restrictions, prerequisites, or requirements for transferability (e.g., notice requirements, form of the transfer, etc.). Care must be taken to make sure that the proper actions and/or structure are used to secure the transfer of the IP licenses. Otherwise, the surviving entity may be subject to IP litigation as an infringer. Further, with respect to any IP license or NDA terms with third parties, the surviving entity must catalogue any and all unique terms (such as limiting confidential information from the third party to certain employees, patent marking, royalty reporting and paying, using licensed software in specific numbers of computers, or exposing licensed source code to particular employees but not others) for continuing compliance by the surviving entity.

5. Employment procedures

Confirm and document complete hiring and exit procedures for employees of the surviving entity. Such procedures are often ignored (at least during the transition phase) by a surviving entity when the contributing entities had conflicting procedures. Knowledgeable outside counsel should be involved to assess and consolidate these procedures for the surviving entity.

6. Identify all actual and potential IP disputes

Identify any threatened or actual IP enforcements or lawsuits by or against the company. It is typically useful to assess worst-case exposure in defensive cases, but be careful that such assessments are privileged and remain privileged. Plaintiffs' attorneys are quick to seek such assessments in litigation, and sharing such assessments with other parties during M&A negotiations may destroy the privilege.

7. Responses to threat letters

Confirm that all IP threat letters (e.g., patent, employee, and trade secret) have been responded to in writing, and if not, prepare reasonable and measured responses to such threat letters, addressing all points. The surviving entity in an M&A transaction is frequently a target of IP litigation, and such response letters are often key exhibits.

8. Independent/internal development

M&A transactions can lead to the unintentional disposal of significant R&D documentation from the contributing entities. It is vitally important to document, catalogue, and maintain proof of internal or independent development of key IP by the contributing entities. Key employees with this important knowledge may not be maintained by the surviving entity, so this proof must be maintained in document form (e.g., invention disclosures, engineer notebooks, early versions of source code, etc.). Further, IT systems such as external email hosting, source code repositories, and cloud storage should be transitioned seamlessly to avoid inadvertent losses of important IP development history.

9. Unique branding

Search the Internet and elsewhere to ensure that other companies are not using a name or branding that consumers may confuse with the surviving company's name and branding.

10. Non-disclosure agreements

Confirm that NDAs are used with all third parties when discussing IP, and make sure that all NDAs are documented and maintained. What are the terms and conditions, and are there any trade-secret-defeating terms?

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