Intellectual Property: Stock Purchases and Mergers

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This Note highlights key intellectual property (IP) considerations in stock purchase and merger transactions. It discusses legal due diligence of the target company's IP and drafting and negotiating IP aspects of stock purchase and merger agreements (including representations and warranties) and ancillary agreements. It also addresses certain information technology (IT) considerations.

In most stock purchase and merger transactions, legal issues involving intellectual property (IP) are handled by IP counsel separately, but concurrently, with the negotiation of other transaction issues.

This Note discusses:

- Due diligence of the target company's IP assets, including issues commonly identified during the buyer's due diligence review.
- Key aspects of drafting and negotiating the IP aspects of stock purchase and merger agreements, including representations and warranties, covenants and ancillary agreements.

It also addresses certain information technology (IT) aspects, including the target company's proprietary and licensed software, and its software licenses and IT agreements with other parties.

In any stock purchase or merger transaction, the buyer primarily wants to ensure that it acquires or has access to all IP assets required to conduct the business after the closing date of the transaction. IP and IT issues should not be overlooked in any stock purchase or merger transaction. However, the analysis of these aspects in a specific transaction depends on many factors, including whether the target company:

- Is in the business of exploiting IP or otherwise heavily relies on IP in its business.
- Is a mature business or a start-up.
- Has a diversified IP portfolio or holds certain key IP assets.
- Is a stand-alone company or a subsidiary of a larger entity (see *Carve-out Transactions*).

IP counsel involved in a stock purchase or merger generally have five primary areas of responsibility:

- Understanding the transaction structure and its implications for the target company's IP assets and liabilities (see *Types of Transaction Structures*).
- Conducting IP due diligence, including identifying and evaluating relevant IP assets and liabilities, and preparing an analysis of the results (see *IP Due Diligence: Areas of Review and Analysis*).
- Drafting and negotiating the IP and IT aspects of the purchase or merger agreement, including representations and warranties, and covenants (see *IP/IT Provisions in the Purchase or Merger Agreement*).
- Drafting and negotiating any ancillary IP or IT agreements, including licenses and transition services agreements (see *Ancillary IP and IT Agreements*).
- Coordinating any required post-closing IP matters, such as IP prosecution and maintenance (see *Post-closing Issues*).

For the purposes of this Note, references to the target company include any target company subsidiaries.

This Note focuses primarily on IP and IT issues under US law. If the target company's foreign IP assets and liabilities are material to the transaction, the buyer should consider retaining local IP counsel in the relevant foreign jurisdiction.

TYPES OF TRANSACTION STRUCTURES

Understanding the transaction structure is necessary for evaluating the transaction's potential impact on the target company's IP assets, especially IP licenses and other IP-related agreements. IP due diligence and the negotiation of IP issues must take into account whether:

- The transaction is a stock purchase or merger and, if it is a merger, the type of merger structure (see *Stock Purchases and Mergers*).
- The target company, or the seller, is a publicly-traded or privately-held entity (see *Public versus Private Transactions*).
- The transaction involves the sale of a subsidiary, division or other smaller part of a larger business (see *Carve-out Transactions*).

STOCK PURCHASES AND MERGERS

In a stock acquisition, the buyer typically acquires a controlling ownership interest in the target company. By operation of law, control over the target company's assets, rights and liabilities (including unknown or undisclosed liabilities) transfers to the buyer as of the closing. For further information, see *PLC Corporate & Securities, Practice Note: Stock Acquisitions: Overview (http://us.practicallaw.com/4-380-7696)*.

A merger is a legal combination of two companies where the surviving entity succeeds to both companies' assets, rights and liabilities (including unknown or undisclosed liabilities). In a forward merger and forward triangular merger, the target company ceases to exist by merging into the buyer and the buyer's subsidiary, respectively. In a reverse triangular merger, the target company survives the merger as the buyer's subsidiary. For more information, see *PLC Corporate & Securities, Practice Note, Public Mergers: Overview: Merger Structures (http://us.practicallaw.com/4-382-2164)*.

In both stock purchases and mergers, the buyer directly or indirectly assumes control over all IP rights owned by the target company and the benefit of all licenses under which the target company uses third-party IP. However, to ensure that the target company will continue to have all IP rights necessary to operate its business, the buyer must consider:

- Any potential loss or impairment of the target company's IP rights caused by the transaction itself (see *IP and IT Agreements*).
- In a carve-out transaction, the target company's right to continue using IP retained by the seller or its other affiliates (see *Carve-out Transactions*).

The negotiation of a stock acquisition or merger, therefore, differs from an asset acquisition, in which the buyer only acquires the assets and liabilities it identifies and agrees to acquire and assume, subject to any liabilities imposed on the buyer as a matter of law. For more information on IP issues in asset purchase transactions, see *Practice Note, Intellectual Property: Asset Purchases (http://us.practicallaw.com/4-509-4845)*.

PUBLIC VERSUS PRIVATE TRANSACTIONS

Public Transactions

In public company transactions, the buyer often relies on SEC reports and other public filings for material information about the target company. Because the seller in a public company transaction usually does not indemnify the buyer, the buyer cannot rely on the representations and warranties in the purchase or merger agreement to protect it from post-closing IP-related claims and liabilities. Therefore, in a public company transaction:

- The IP representations and warranties tend to be more streamlined and are often not heavily negotiated.
- The buyer must rely on IP due diligence to identify potential post-closing risks not disclosed in public filings.

For further information about public mergers, see *PLC Corporate & Securities, Practice Note, Public Mergers: Overview (http://us.practicallaw.com/4-382-2164)*.

Private Transactions

Because public filings are not available for private company transactions, the buyer must rely more heavily on the due diligence analysis and thorough representations and warranties to:

- Gather information about the target company's IP assets and liabilities.
- Reduce the risk of unexpected post-closing claims and liabilities.

In private company transactions the IP representations and warranties typically survive closing, leaving the seller (or a fund set aside by the target company) with ongoing indemnification obligations if any of those representations or warranties turn out to be false.

For more information about private mergers and stock acquisitions, see *PLC Corporate & Securities, Practice Note, Private Mergers: Overview (http://us.practicallaw.com/0-380-9145)* and *PLC Corporate & Securities, Practice Note, Stock Acquisitions: Overview (http://us.practicallaw.com/4-380-7696)*.

CARVE-OUT TRANSACTIONS

A carve-out transaction is the sale of a discrete business from a larger business enterprise. If the carved-out business is operated in a corporate subsidiary or subsidiaries of the seller, the transaction may be structured as a stock purchase. The carved-out business often shares certain IP assets and services, including IT services, with its parent and other affiliates. In this case, due diligence is needed to identify the assets that are being divested and those remaining with the seller. The parties must also determine whether the seller will license IP assets or provide IP or IT services to the target company for either a transitional period or on a long-term basis (see *License Agreements* and *Transition Services Agreement*).

For more information on carve-out transactions, see *Practice Note, Carve-out Transactions (http://us.practicallaw.com/7-504-1544)*.

Similar issues relating to the allocation and use of shared assets are raised in a spin-off transaction.

IP DUE DILIGENCE: AREAS OF REVIEW AND ANALYSIS

The buyer's IP legal due diligence serves many purposes, including:

- Validating the business reasons for the proposed transaction, in particular, if certain IP assets are critical to the target company's business.
- Identifying IP-related liabilities that could affect the buyer's valuation of the target company.
- Identifying IP-related obstacles to completing the transaction and allowing the parties to identify and resolve or mitigate these issues before closing.

In general, IP legal due diligence includes a review and analysis of these areas:

- **Owned IP.** This confirms that the target company owns the IP it claims to own and that the owned IP will be retained by the target company and not be impaired by the transaction (see *Registered Owned IP* and *Unregistered Owned IP*). It also includes a review of any licenses of the target company's owned IP to other parties (see *IP and IT Agreements*).
- **Third-party IP.** This includes a review of IP used by the target company under licenses from another party (see *IP and IT Agreements*).
- **IP disputes and office actions.** This includes a review of actual or potential IP-related disputes and office actions involving or impacting the target company (see *IP Disputes and Office Actions*).
- **IT assets.** This includes a review of the target company's proprietary and licensed software and other IT assets (see *Information Technology*).

For a Checklist of common IP due diligence issues, see *IP Due Diligence Issues in M&A Transactions Checklist (http://us.practicallaw.com/3-501-1681)*.

Before beginning its due diligence, the buyer often submits a due diligence request to the target company or seller consisting of a list of questions and requests for documents organized by topic. The buyer's IP counsel should review this request list to ensure it appropriately covers IP and IT.

For a model IP and IT due diligence request list, see *Standard Document, Due Diligence Request List: IP and IT (http://us.practicallaw.com/7-509-4132)*.

REGISTERED OWNED IP

The buyer should ask the target company to provide schedules identifying all federal, state and foreign IP registrations and applications owned or held for use by the target company. The target company's registered IP portfolio may include:

- Patents, patent applications and statutory invention registrations.
- Trademark and service mark applications and registrations.
- Copyright applications and registrations.
- Foreign design registrations.
- Mask work registrations.
- Internet domain name registrations, which are not technically IP rights but which are often addressed alongside IP registrations and applications.

The schedules provided as part of buyer's due diligence often form the starting point for preparing disclosure schedules for the purchase or merger agreement (see *IP Disclosure Schedules*).

Common Registered IP Issues

By conducting searches of publicly available US and foreign IP databases (for example, through commercial databases or, in the US, on the websites of the US Patent and Trademark Office (USPTO) and US Copyright Office) and reviewing prosecution files and similar materials provided by the target company, the buyer may identify these common issues relating to specific IP applications or registrations:

- **Abandoned or expired items.** The target company may have abandoned applications or registrations or let them expire by failing to make required filings or pay required maintenance or renewal fees. The buyer should confirm whether the items were abandoned intentionally or inadvertently. If the buyer believes an abandoned or expired item is material, the buyer should consider that:
  - in some cases, it may be possible for the target company to revive the application or registration; and
  - without revival, damages may still be recoverable for pre-expiration or pre-abandonment infringement.
- **Pending applications and registrations set to expire or for which renewal, maintenance or other fees are due.** The parties should discuss any material upcoming prosecution decisions on pending applications for registration and existing registrations. They should also agree on the party responsible for prosecution and maintenance after closing. Often, the buyer assumes responsibility for handling the IP portfolio immediately after closing.
- **Gaps or other inconsistencies in the public record chain of title.** The target company or one of its subsidiaries should be identified as the current, record owner in public IP databases of each item of registered IP. The buyer should require that the target company fix any chain-of-title discrepancies before

closing. If the record owner of an item is an unrelated third party, the target company's predecessor or a former name of the target company, this may reflect:

- a third party's superior ownership interest; or
- a failure to record name changes or assignments with appropriate IP registries.

- **Unreleased security interests.** Security interests may be recorded against specific items of IP, including US registered IP in the USPTO and US Copyright Office. Unreleased security interests could reflect either:
  - existing liens on the IP; or
  - the target company's failure to record a security interest release with the appropriate IP registries, including the USPTO or Copyright Office as appropriate.

  For trademarks and patents, the buyer should also review UCC-1 filings in relevant states. While security interests in trademarks and patents are typically recorded in the USPTO, they are perfected under the Uniform Commercial Code, not through USPTO recordation.
- **IP held by seller or its affiliates.** In a carve-out transaction, the seller or an affiliate of the target company (for example, an IP holding company) may own IP that the target company primarily or exclusively uses. The buyer should require that the affiliate assign this IP, including any registrations or applications, to the target company before closing. Although a separate assignment agreement is not required in a stock purchase or merger for the transfer of IP owned by the target company (see *Types of Transaction Structures*), the transfer of any IP held by the seller or the seller's other affiliates requires a separate assignment. For IP used by the target company that will be retained by the seller, the target company may seek a license agreement (see *License Agreements*).

The buyer should also pay attention to:

- material changes in the target company's IP filing strategies; and
- the target company's failure to register or apply for registrations in key foreign jurisdictions where it does business or that would cover current or future products or services.

These changes or failures may simply reflect an immaterial change in business strategy. However, they could also indicate potential conflicts with third-party IP and require further investigation, such as a review of trademark clearance or patent freedom-to-operate searches that may have influenced the target company's filing decisions.

Patents and Patent Applications

Common issues concerning the target company's issued patents and patent applications include:

- **Unpublished patent applications.** Because US patent applications are generally not published for at least 18 months after filing, they cannot be searched for in online public databases during that period. Therefore, the buyer should:
  - review the target company's internal patent filing records; and
  - consult with the target company's patent counsel to determine the scope and filing status of unpublished US patent applications.
- **Employee patent invention assignments.** If a current or former target company employee or contractor is the record owner of a patent or an outstanding patent application purportedly owned by the target company, the buyer should confirm that the:
  - employee or contractor has assigned his ownership interest in the patent or patent application to the target company; and
  - the assignment is properly recorded in the appropriate IP registry.

Trademark Registrations and Applications

Common issues concerning the target company's trademark applications and registrations include:

- **Intent-to-use trademark applications.** US intent-to-use (ITU) trademark applications cannot be assigned before submitting evidence to the USPTO that the applicant is using the subject mark in US commerce, unless the assignment is made to a successor of the applicant's business or occurs as part of a transfer of the entire business to which the mark pertains, if the business is ongoing and existing. The buyer should confirm that the target company does not own applications or issued registrations that were assigned in violation of this restriction.
- **Non-use.** The target company's trademark registrations may be vulnerable to a third-party cancellation action for abandonment if the target company has stopped actively using the marks. Under the Lanham Act, a mark, whether registered or unregistered, is deemed abandoned when its owner has discontinued use with an intent not to resume use. There is a statutory presumption of abandonment after three consecutive years of non-use. Use of a trademark in this context means bona fide use in the ordinary course of trade.
- **Appropriate use.** The buyer should review the target company's marketing and promotional materials, websites and social media web pages to identify and ensure the appropriate use of the target company's registered trademarks. Improper use may result in the weakening or loss of trademark rights. For more information on proper trademark use, see *Practice Note, Trademark Use and Protection Guidelines (Internal) (http://us.practicallaw.com/1-506-5439)*.

Copyright Registrations and Applications

Common issues relating to the target company's copyright registrations and applications include:

- **Failure to register.** For copyrighted works created in the US, registration is required to sue for infringement under the Copyright Act and receive certain other benefits. The buyer should identify the target company's material unregistered copyrights and consider applying for registrations (or requiring the target company to apply before closing) if a legitimate risk of third-party infringement exists.

- **Reversion rights.** Under US copyright law, an author of a copyrighted work has the irrevocable right to terminate any assignment or license of the copyright in the work generally within a five-year window beginning 35 years after the grant (or, for pre-1978 grants, beginning 56 years from the date of copyright). However, this termination right does not apply to works made for hire. The buyer should identify any material works that have been assigned or licensed to the target company and may be subject to a termination notice from the original author. This risk is particularly significant if the target company's business involves the commercialization of music, film or similar entertainment properties.
- **Chain of title.** The buyer should confirm that all works that relate to the copyright registrations owned by the target company qualify as works made for hire (see *Unregistered Copyrights*) or are the subject of a proper assignment.

Domain Name Registrations

Common domain name registration issues include:

- **Employees or contractors listed as the owner in the applicable domain name registry's records.** A present or former employee or contractor of the target company is often identified as the record owner of a domain name registration purportedly owned by the target company. The buyer should ensure that the domain name registrations are transferred to the target company. Uncooperative employees or contractors can demand large sums to transfer the domain names if they believe they have leverage to hold up the acquisition.
- **Jurisdiction-specific top-level domains.** Registrations with certain jurisdiction-specific top-level domains can only be owned by persons or entities based in the applicable jurisdiction, including, the European Union (.eu), Canada (.ca), Germany (.de) and the US (.us). In these cases, a local agent used by the target company to register the domain name often appears as the record owner.

UNREGISTERED OWNED IP

The buyer should ask the target company to provide schedules or a summary of its unregistered (common law) IP. The target company's unregistered IP portfolio may include some or all of the following:

- Trade secrets, including unpatented inventions.
- Unregistered copyrights, including software source code (see also *Proprietary Software*).
- Unregistered trademarks and service marks.

To the extent possible, the buyer should confirm the ownership status of key unregistered IP the target company claims to own.

As with registered IP (see *Common Registered IP Issues*), in a carve-out transaction the buyer should ensure that any unregistered IP that is primarily used by the target company but owned by the seller or another seller affiliate is assigned or licensed to the target company (see *License Agreements* and *IP Assignments*).

Trade Secrets

Common issues concerning the target company's trade secrets include:

- **Confidentiality policies and non-disclosure agreements.** The buyer should request copies of the target company's written confidentiality policies and non-disclosure agreements applicable to trade secrets and other confidential information. The target company's failure to take appropriate confidentiality measures can threaten the proprietary status of its trade secrets or result in liability to third parties for not protecting their confidential information. In addition, the buyer should ensure that:
  - any confidentiality obligations in the target company's non-disclosure agreements covering trade secrets are perpetual; and
  - the duration of confidentiality obligations for non-trade secret information are appropriate. Some states do not enforce perpetual confidentiality obligations in non-disclosure agreements for non-trade secret information.
- **IP and invention assignment agreements.** The buyer should ensure that the target company's IP and invention assignment agreements adequately cover trade secrets (see *IP and Invention Assignment Agreements*).

Unregistered Copyrights

The buyer should confirm that the target company's IP or invention assignment agreements include work made for hire language. Work made for hire only applies to copyrights and not other kinds of IP. To qualify as a work made for hire, a copyrightable work must be created by either:

- An employee within the scope of his employment.
- A non-employee and fall under one of nine specific types of commissioned works set out in the Copyright Act, with the parties agreeing in writing that the subject work is a work made for hire (*17 U.S.C. § 101*). Notably, software generally does not qualify as a work made for hire when created by a non-employee and ownership rights must be expressly assigned to the commissioning party.

Unregistered Trademarks

Similar to registered trademarks (see *Trademark Registrations and Applications*), the buyer should ensure that the target's company's unregistered trademarks, particularly those that are or may become valuable are:

- Not vulnerable to an assertion of abandonment for non-use.
- Being used appropriately on all product packaging, marketing and promotional materials, websites and social media.

OTHER IP OWNERSHIP ISSUES

The buyer should consider the following possible restrictions on the target company's use of its IP:

- **Jointly-owned IP.** The rules relating to joint IP ownership vary by type of IP and by jurisdiction, but may impair the target company's ability to fully exploit its IP. For example, under US law:
  - each joint copyright owner may license its undivided interest in the entire copyright without the consent of other joint owner(s), but must account for licensing royalties received and must not destroy the value of the copyrighted work; and
  - each joint patent owner may license its interest without the consent of other joint owner(s), but has no duty to account for licensing royalties to its co-owner(s).
- **IP developed using government, university or military resources, or as part of a standards-setting organization or patent pool.** These arrangements often restrict the transfer of IP, or require licensing, joint ownership or other mandated sharing of IP with third parties.

IP AND IT AGREEMENTS

As part of its due diligence requests, the buyer should ask the target company to provide complete and executed copies of all IP licenses and other IP and IT agreements to which the target company is a party.

Depending on the transaction, other IP and IT agreements may include:

- Research and development agreements.
- IP and invention assignment agreements.
- Trademark coexistence agreements.
- Disaster recovery agreements.
- Outsourcing arrangements.
- Sponsorship and marketing agreements.
- Settlement agreements.

These agreements can raise a range of IP-related issues that could affect the valuation or closing of the contemplated transaction.

For a model due diligence summary template for use with IP license agreements, see *Due Diligence Summary Template: License Agreements (http://us.practicallaw.com/0-508-1915).*

Restrictions on Change of Control or Assignment

The buyer should review the target company's licenses and other IP and IT agreements to determine whether they prohibit or restrict:

- Changes of control of the target company.
- The target company's assignment of the agreement.

If the transaction violates an assignment or change-of-control clause or triggers a termination right by the other party, the licensor or vendor's consent may need to be obtained before closing to avoid a breach of the agreement.

In the event of a change-of-control restriction, the buyer must determine whether the transaction falls within the scope of transactions described in the relevant change-of-control provision. For example, a merger typically triggers a change-of-control provision. Stock purchases may or may not trigger a change-of-control provision, depending on the percentage of stock the buyer intends to acquire.

Whether a stock acquisition or merger violates a non-assignment clause depends on both the transaction structure and the nature of the license grant. In particular, courts have found that for certain types of IP and licenses a licensee's rights in licensed IP are not freely transferable because of the licensor's interest in controlling the identity of its licensee.

The following are some general guidelines for evaluating the transferability of licenses when the target company is the licensee, although the outcome may be depend on, among other things, the applicable law and the type of IP at issue:

- **Forward mergers, including forward triangular mergers.** Because the target company ceases to exist as a separate entity following a forward merger, a forward merger is likely to be treated as an assignment, possibly violating a non-assignment provision (see, for example, *Cincom Systems, Inc. v. Novelis Corp., 581 F.3d 431 (6th Cir. 2009)*).
- **Stock purchase.** Because the target company survives as a separate entity following a stock purchase, a stock purchase is not treated as an assignment and is not likely to violate a non-assignment provision.
- **Reverse triangular merger.** Because the target company survives as a separate entity following a reverse triangular merger, reverse triangular mergers typically are assumed not to violate non-assignment provisions. However, in conducting due diligence, the buyer should be aware that under some circumstances a reverse triangular merger may be found to violate an anti-assignment provision.

  For example, the unpublished decision in *SQL Solutions v. Oracle* held that a reverse triangular merger violated a non-assignment clause in a non-exclusive copyright license (*1991 WL 626458 (N.D. Cal. 1991)*), and in *Meso Scale Diagnostics, LLC v. Roche Diagnostics GMBH, C.A.*, a court found, in denying a motion to dismiss, that a reverse triangular merger transaction may violate a non-assignment clause that prohibited assignment by operation of law in a non-exclusive patent license (*No. 5589-VCP (Del. Ch. April 8, 2011)*).

The buyer may discover that the target company is a party to certain licenses that are silent on the issue of the target company's assignment. The majority of courts have found that when a license is silent:

- Non-exclusive IP licenses may not be assigned by the licensee without the licensor's consent.
- Exclusive IP licenses are assignable by the licensee without the licensor's consent.
- A licensor may assign an IP license without the licensee's consent.

Trademark Agreement Issues

The buyer should consider the following issues relating to the target company's trademark agreements:

- **Trademark assignment agreements.** A trademark assignment must include the goodwill associated with the assigned marks or may be deemed an invalid assignment in gross that can invalidate the trademark. For a trademark assignment agreement, see *Trademark Assignment Agreement (Long-form) (http://us.practicallaw.com/7-503-9763)*.
- **Trademark license agreements.** Trademark license agreements should include quality control provisions because the target company's failure to exercise sufficient quality control over its licensees' use of the target company's marks can result in a naked license and the abandonment of those marks. For more information on quality control in a trademark license, see *Standard Document, Trademark License Agreement: Drafting Note: Quality Control (http://us.practicallaw.com/8-500-7097)*.
- **Trademark coexistence agreements.** A trademark coexistence agreement may restrict the use and registration of a trademark, for example, by limiting the trademark to certain goods or services or requiring the trademark to appear in a specified manner. For a sample trademark coexistence agreement, see *Standard Document, Trademark Coexistence Agreement (http://us.practicallaw.com/2-505-9150)*.

IP and Invention Assignment Agreements

The buyer should request copies of the target company's IP and invention assignment agreements. Each should include:

- A present assignment of rights, rather than a promise to assign at a future time (see *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc., et al., 563 U.S. _____(2011)*).
- A broad assignment to the target company of all relevant forms of IP.

Other Common IP and IT Agreement Issues

Other common issues in the target company's IP and IT agreements may include:

- **Enterprise or group license agreements.** In a carve-out transaction, the target company's rights to use third-party IP, including software, may flow from an enterprise or group license agreement that the seller retains after closing. The buyer should confirm whether the license agreement includes a divestiture provision, permitting the target company to remain licensed to use the IP or software for a period of time after closing, even though the buyer is not the seller's affiliate. Alternatively, the buyer may need to enter into its own agreement with the licensor or obtain access to and use of the IP or software from the seller for an interim period after closing (see *Transition Services Agreement*).
- **Adverse impact on buyer's IP.** The target company may be party to a license that contains obligations that may apply broadly to the buyer or its affiliates. For example, an agreement may define the IP that the target company licenses to a third party as "all IP owned by the licensor or any of its affiliates." After closing, the buyer and its affiliates may be considered affiliates of the target company. In this case, the buyer's own IP likely would be subject to this license grant.
- **Termination rights.** The target company may be party to licenses in which the licensor can terminate the target company's rights to use the licensed IP at any time without cause.
- **Exclusive licenses.** The target company may have granted an exclusive license of its IP or agreed to other restrictions on the use of its IP that would prohibit the buyer's planned use or ability to expand its business.
- **Terminated agreements or agreements soon due to terminate.** If the buyer identifies any agreements that have terminated or may soon terminate, the target company should confirm for the buyer whether the parties have executed or are negotiating a new agreement.

IP DISPUTES AND OFFICE ACTIONS

The buyer should ask the target company to identify and provide relevant documents for all past, pending, asserted and threatened infringement, dilution, unfair competition, misappropriation and other IP-related claims or office actions involving:

- The target company and its affiliates.
- Any key licensee or licensor, if an actual or threatened dispute involving these parties may relate to the target company's business.

These claims and office actions can include:

- Litigations and arbitrations, including:
  - arbitrations conducted under the Uniform Domain-Name Dispute-Resolution Policy (UDRP);
  - industry-wide patent infringement litigations initiated by non-practicing entities (NPEs), which have been of particular concern in recent years. These lawsuits are typically initiated by patent owners that do not manufacture or use the patented inventions to encourage defendants to enter into royalty-bearing licenses; and
  - trademark and copyright infringement litigation.
- USPTO office actions and *inter partes* proceedings, including:
  - trademark office actions and patent re-examinations pending before the USPTO; and
  - Trademark Trial and Appeal Board (TTAB) oppositions and cancellations.
- Cease-and-desist and invitation-to-license letters from third-party IP owners.
- Cease-and-desist and invitation-to-license letters to third parties.
- Pending government investigations and proceedings.

The buyer can perform online searches for some of these disputes to confirm the accuracy of the information the target company provides.

When evaluating IP disputes, the buyer should consider, among other things:

- The materiality of the dispute to the target company's business.
- The worst- and best-case scenarios and their likelihood of occurring.
- The availability of alternatives, including a technological workaround, in case of an injunction against the target company.
- The likelihood of settlement on terms acceptable to the target company.
- Whether the buyer has a relationship to the adverse party and whether that relationship can aid or hinder resolution of the dispute.
- The possibility of parallel actions in foreign countries.
- The cost of the dispute to date and the likely future costs, including:
  - whether the target company would have indemnification obligations or could look to another party for indemnification coverage; and
  - the availability of insurance coverage.

INFORMATION TECHNOLOGY ASSETS

The buyer's IP counsel typically assist with the due diligence review of certain IT issues.

Technical aspects of software systems and hardware integration are usually handled in a parallel diligence process by the target company's and buyer's IT personnel and are not addressed in this Note.

Proprietary Software

The buyer should investigate the target company's rights in any proprietary software, particularly if the target company:

- Licenses or distributes proprietary software products to customers.
- Relies on software licensed from third parties that is not readily replaceable or is costly to replace.

For software created by or for the target company, the buyer should confirm that all relevant rights have been assigned to the target company. In particular, if the software is created by a non-employee, it generally does not qualify as a work made for hire and all rights must be expressly assigned to the target company.

For software licensed to the target company by third parties, the buyer should ensure that the rights licensed in to the target company are consistent with the rights the target company has licensed to its customers or other third parties. In particular, the buyer should confirm that if the target company's licensed rights are terminated:

- The applicable licenses permit the target company's customers to continue using the licensed software.
- The target company continues to have the right to provide its customers with maintenance and support.

Open-source Software

The buyer should investigate the target company's use of open-source software. Improper use of open-source software may jeopardize the proprietary nature of the target company's or its customers' software. The buyer should review the terms of each applicable open-source license agreement, because each agreement may impose different restrictions on and obligations concerning the uses of the licensed open source software.

For more information on open-source software, see *Practice Notes, Open-source Software: Use and Compliance (http://us.practicallaw.com/9-504-7111)* and *Open-source Software Licenses: Key Terms and Conditions Checklist (http://us.practicallaw.com/0-506-6397)*.

Source Code Escrow

For material third-party software licensed to the target company, the buyer should determine whether the target company is either:

- In possession of a copy of the source code.
- Party to a source code escrow agreement.

A source code escrow agreement gives the licensee access to and the right to modify the licensor's source code on the occurrence of certain conditions (for example, if the licensor enters bankruptcy or ceases operation and cannot continue providing maintenance and support).

The buyer should confirm that any source code escrow agreement naming the target company as a beneficiary includes:

- An obligation for the source code and other deposited materials, such as documents, to be automatically released if a release condition occurs.
- A present license to the source code. Some source code escrow agreements purport to grant a license to source code that is effective only if the release condition occurs. However, a bankruptcy court may characterize a license grant that is contingent on the licensor's bankruptcy as an impermissible transfer from the bankruptcy estate.

If the target company has granted other parties access to or rights in its source code, the buyer should understand:

- The scope of the other parties' permitted access.
- The terms and conditions of permitted access.
- The potential impact of any escrow or other agreement governing the release of that source code.

Privacy and Data Security

The buyer should confirm that the target company maintains appropriate policies and internal practices concerning its collection, use and protection of personal information. Because the complexity of overlapping data protection laws and regulations makes it difficult to confirm the target's compliance through due diligence, the buyer often relies heavily on representations and warranties. However, even if the buyer is conducting an expedited due diligence review, it should consider:

- Reviewing the target company's agreements with service providers and other vendors to ensure those agreements reflect the third parties' obligations to hold in strict confidence the personal information of the target company's customers or website users.
- Consulting local counsel if the target company's business involves or the transaction will result in the cross-border transfer of personal information.
- If the target company collects users' personal information on its website, reviewing the target company's website privacy policies to ensure that they do not include:
  - an obligation to notify users of a change of control; or
  - any other restrictions that may be triggered by the transaction.

Back-office IT Systems

In a carve-out transaction, due diligence is also necessary to ensure that the transaction does not disrupt the functioning of and the target company's access to its back-office IT systems. To the extent the target company relies on the seller's IT systems, the seller should provide continued access and support to the buyer for a transitional period after closing (see *Transition Services Agreement*).

User-generated Content

If the target company's website permits users to post content, the buyer should ensure that:

- The target company's website has appropriate terms of use and a copyright policy.
- The target company has complied with the take-down procedures and safe harbor provisions of the Digital Millennium Copyright Act (DMCA) in a manner sufficient to qualify for immunity from copyright infringement claims.

IP/IT PROVISIONS IN THE PURCHASE OR MERGER AGREEMENT

IP counsel's primary role in drafting and negotiating the purchase or merger agreement is to handle the various IP and IT-related provisions, particularly:

- Representations and warranties concerning the target company's IP and IT assets, rights and liabilities (see *Typical IP and IT Representations and Warranties*).
- Covenants and other provisions governing the parties' conduct relating to IP and IT assets after signing and closing (see *Pre-closing Covenants and Other Purchase and Merger Agreement Provisions*).
- Ancillary IP documents, such as transitional licenses and services arrangements (see *Ancillary IP and IT Agreements*).

For a general overview of key terms and conditions commonly found in purchase or merger agreements, see *Practice Notes, Asset Purchase Agreement Commentary (http://us.practicallaw.com/4-381-0590)* and *Merger Agreement Commentary: Public Mergers and Acquisitions. (http://us.practicallaw.com/3-382-3060)*

TYPICAL IP AND IT REPRESENTATIONS AND WARRANTIES

Like other representations and warranties, IP representations and warranties reflect the allocation of risk between the buyer and the target company or the seller:

- The buyer seeks the broadest coverage possible and wants to ensure that the provisions reflect its due diligence results.
- The target company seeks to make only limited representations and warranties that are qualified by the target company's or seller's knowledge and/or other qualifications, including materiality.

The representations and warranties are negotiated in connection with the purchase or merger agreement's disclosure schedules, which are a collection of lists attached to the agreement. The disclosure schedules are used:

- To provide information to the buyer about the target company's business, such as lists of IP assets and agreements (see *IP Disclosure Schedules*).
- By the target company or seller, to provide specific exceptions to the representations and warranties.

For a general introduction to disclosure schedules, see *Practice Note, Disclosure Schedules: Mergers and Acquisitions (http://us.practicallaw.com/6-381-1367).*

IP Disclosure Schedules

The buyer typically seeks representations requiring the target company to provide disclosure schedules listing:

- All registered IP and proprietary software owned by the target company.
- All unregistered IP owned by the target company. This is sometimes limited to material items.
- Certain IP and IT agreements to which the target company is a party or from which it otherwise benefits (see also *IP and IT Agreements*).

IP disclosure schedules can assist the buyer in its due diligence. However, the schedules do not define the scope of the IP assets being acquired. The IP assets, rights and liabilities owned by the target company transfer by operation of law, even if omitted from the schedules (see *Types of Transaction Structures*).

The parties may heavily negotiate these scheduling requirements if they are tied to the scope of other representations. For example, in some cases, the target company's representations concerning IP agreements extend only to agreements included on the schedule.

In the schedule of IP agreements, the target company may object to including the following agreements because of the potential difficulty identifying them and providing a complete list in the schedules:

- Shrink-wrap or click-wrap agreements.
- Non-disclosure agreements.

- Invention assignment agreements.
- Customer or end-user agreements entered into in the ordinary course of business.

The buyer may still expect the target company to include these agreements in the scope of its other representations (for example, the non-infringement representation), even if a full list of those agreements is not provided in the schedule.

Similarly, the target company typically resists providing a schedule of all IP licensed to it by third parties because of the difficulty of identifying all IP in this category. However, the buyer may require the scheduling of material third-party IP.

If any of the target company's trade secrets are identified in a schedule, the parties should:

- Consider whether their disclosure is required.
- Ensure confidentiality is maintained if they are identified in detail.

Sufficiency of IP Assets

The buyer typically requires the target company to stand behind the sufficiency of the IP that the target company uses in its business by seeking a representation that the target company owns or otherwise has the right to use the IP assets it uses in its business. In a forward merger or carve-out transaction (see *Carve-out Transactions*), the buyer may also require a warranty that these rights will survive unchanged after the transaction.

In a carve-out transaction, the buyer also typically requires the target company to give a specific sufficiency representation. This specifies that the target company's IP and IT assets, together with the rights provided to the buyer under any ancillary agreements (such as transitional licenses and services arrangements), constitute all of the IP and IT assets necessary for the buyer to operate the divested business in the same manner after the closing as the target company operated the business before the closing.

The target company may seek to exclude from the scope of these representations third-party IP used in its business for which a license is unnecessary under applicable law. This may include use under the first-sale doctrine or for which the target company believes protection is available under the fair-use doctrine.

The target company should ensure that any sufficiency representation is consistent with, and does not unintentionally expand, the scope of any non-infringement representation (see *Non-infringement*). For example, if the target company is infringing a third-party's trademark, then the target company cannot represent that it has the right to use that mark in its business. In addition, the target company should review this representation along with any general sufficiency of assets and no third-party conflicts representations in the purchase or merger agreement to ensure consistency among the various provisions.

The buyer should also consider whether:

- The target company's business is defined elsewhere in the purchase or merger agreement.
- The business should be defined to include the conduct of the target company's business as contemplated to be conducted. In certain circumstances, it may be important that the target company has secured IP rights for a future product launch or service offering.

In a carve-out transaction (see *Carve-out Transactions*), the buyer may place particular emphasis on ensuring that the target company retains all of the IP rights necessary to operate its business after closing. In this case, transitional or long-term licenses or arrangements relating to the seller's IP or IT may be required (see *Ancillary IP and IT Agreements*).

IP Ownership

The buyer typically wants the target company to represent that it is the sole and exclusive owner of each item of owned IP, free and clear of all liens.

The target company may resist including unregistered IP within the scope of this representation because of the difficulty in determining ownership of unregistered IP rights. In this case, the buyer should consider whether a knowledge or materiality qualifier for unregistered IP is appropriate.

The parties should clarify whether the purchase or merger agreement's definition of "lien" includes not just security interests and similar encumbrances, but also licenses granted to third parties.

If the target company's IP is subject to any licenses, obligations to grant licenses or other agreements that could otherwise restrict the target company's use of the IP, these agreements and arrangements should be appropriately disclosed (see *IP Disclosure Schedules*).

Validity and Enforceability

The buyer typically wants the target company to represent that its IP assets are:

- Valid, subsisting and enforceable.
- Not subject to any pending or threatened claim challenging their validity or enforceability.

While the buyer may want the representation to cover all IP owned by or licensed to the target company, the target company may seek to:

- Limit this representation to registered IP owned by it.
- Distinguish between claims and actions pending or threatened:
  - against the target company (for example, in litigation);
  - against the target company's owned IP (for example, in USPTO office actions); and
  - against the target company's licensors (for example, regarding the target company's material in-licensed IP).

The target company often insists that it can only represent its IP is valid to its knowledge or that its IP has not been held invalid or unenforceable by a court or government agency. The parties typically negotiate over which of them bears the risk of a future judgment that the IP is currently invalid or unenforceable.

The buyer may insist on strong representations if the target company's IP portfolio is material and has not been properly maintained (see *Registered Owned IP*), for example, if the buyer has identified during its due diligence:

- Chain-of-title gaps.
- A failure to record name changes.
- Inadvertently abandoned registrations.

Non-infringement

The buyer typically wants the target company to represent that:

- The operation of its business does not infringe, misappropriate, dilute or otherwise violate any other parties' IP rights.
- No other party is infringing, misappropriating, diluting or otherwise violating the target company's IP rights.
- There are no claims in either category pending or threatened.

The parties typically heavily negotiate this representation because of the risk of unknown, unasserted infringement claims that third parties may later assert against the target company or buyer, in particular, patent infringement claims for which the target company may be strictly liable.

Therefore, the target company often seeks to include a knowledge limitation for any non-infringement representation. The buyer typically responds that the target company is in a better position than the buyer to identify and reduce infringement risks. Common compromises include:

- Qualifying the representation with a materiality threshold.
- Limiting the target company's knowledge qualifier to any third party's infringement of the target company's IP or the target company's infringement of third-party patents.

The buyer may seek to have the non-infringement representations extend for a sufficient period into the past to capture potential claims still within the applicable statute of limitations (for example, the statute of limitations for obtaining damages for patent infringement is six years).

The target company should seek to obtain the buyer's express acknowledgment that the specific non-infringement representation is the only non-infringement representation in the purchase or merger agreement. This helps to avoid future disputes on whether representations concerning sufficiency of assets, compliance with laws or breach of IP agreements (to the extent a breach of license can be characterized as an infringement claim) also address infringement.

Trade Secrets and Confidential Information

The buyer typically wants the target company to represent that it has taken reasonable measures to protect its trade secrets and other confidential information, including requiring that its employees, contractors, service providers and vendors execute appropriate confidentiality agreements.

The buyer typically seeks to allocate the risk of confidentiality breaches to the target company because of the difficulty in confirming appropriate practices and identifying breaches through due diligence.

The buyer may desire to extend the scope of representations to cover employees' compliance with confidentiality agreements entered into with previous employers. This would address the risk of the target company's liability for an employee's unauthorized disclosure or use of a prior employer's trade secrets or other confidential information.

Adverse Effect on Buyer's IP

The buyer often wants the target company to represent that the closing of the transaction will not result in the imposition of any lien on or license of the buyer's IP.

The buyer may seek to include this representation to address the risk of springing out-licenses and other encumbrances on the buyer's IP created when the buyer and its affiliates become affiliates of the target company (see *Other Common IP and IT Agreement Issues*).

The target company often seeks to tie this representation to general representations regarding the terms of the target company's IP agreements.

Target Company's IP Agreements

The buyer typically wants the target company to represent that:

- The target company's IP licenses and other IP and IT agreements have been provided to the buyer.
- The agreements are valid and in full force and effect.
- The target company and the other parties to the agreements are not in breach.

The target company's IP and IT agreements are often covered by more general representations concerning the target company's material contracts in the purchase or merger agreement. IP and IT agreements may be expressly referenced in those representations or otherwise meet the threshold for covered agreements.

Therefore, IP counsel should confirm that the representations do not conflict with the IP and IT representations and the coverage of IP and IT agreements is appropriate for the transaction.

Proprietary Software and IT Systems

The buyer often seeks representations specifically addressing the target company's proprietary software and IT systems, including representations that:

- The target company possesses an accurate and complete copy of the source code for its proprietary software.
- There have been no malfunctions, viruses, or confirmed or attempted unauthorized access of the target company's IT assets.

Use of Open-source Software

If open-source software is used in or with the target company's proprietary software products, the buyer typically wants the target company to represent that its use will not jeopardize the proprietary status of the target company's or its customers' software.

To assist with due diligence, the buyer often requires the target company to provide a schedule of all open source software used in or with the target company's proprietary software products.

Because of the complexity of open-source issues, if an expedited transaction timeline inhibits the buyer's ability to fully understand how open-source software is used by the target company, the buyer may require a strong representation that the use of open source software will not adversely affect the target company or its business.

Compliance with Data Protection and Privacy Laws

Depending on the target company's business, the buyer may require representations relating to the target company's compliance with data protection and privacy laws, even if this is covered by the purchase or merger agreement's general compliance with laws representation and warranty. This representation should include international laws if the target company engages in the cross-border sharing of personal information.

Other Common IP and IT Representations and Warranties

Depending on the transaction, the buyer may seek representations and warranties specifically addressing:

- **Research and development activities.** These can include, for example, representations relating to the target company's:
  - ownership of IP developed using government, university or military resources; and
  - obligations due to participation in standards-setting organizations or patent pools.
- **Compliance with the DMCA.** If the target company qualifies as an online service provider under the DMCA, the buyer may seek representations that the target company:
  - has adopted an appropriate copyright compliance policy; and
  - complies with the DMCA's notice and takedown provisions.

PRE-CLOSING COVENANTS AND OTHER PURCHASE AND MERGER AGREEMENT PROVISIONS

Common pre-closing covenants and other provisions concerning IP may include:

- An interim operating covenant (see *Interim Operating Covenant*).
- An IP portfolio management provision (see *IP Portfolio Management*).
- A disclaimer of trademark rights provision (see *Disclaimer of Trademark Rights*).
- A transitional trademark license provision (see *Transitional Trademark License*).
- A transitional domain names and e-mail use provision (see *Transitional Domain Names and E-mail Use*).
- An obligation for the parties to cooperate to obtain third-party consent for IP agreements that prohibit assignment or change of control (see *Third-party Consents*).

Interim Operating Covenant

An interim operating covenant prohibits the target company or seller from abandoning, assigning or taking certain other actions concerning its IP assets between the signing and closing of the transaction without the buyer's consent.

The buyer seeks this covenant to ensure that the target company's business is in substantially the same condition at closing as at signing. The seller in turn typically seeks to ensure that the target company can continue to operate its business during this period in the ordinary course, free from undue interference by the buyer. For example, the target company or seller may seek the express right to continue granting non-exclusive licenses of its IP consistent with its past practice.

IP Portfolio Management

If any unreleased security or chain-of-title issues were identified during due diligence (see *Common Registered IP Issues*) but not corrected before signing, the buyer may seek a pre-closing covenant requiring the target company to provide evidence that it has made necessary filings to release the security interests and correct the chain of title.

The buyer may also require the target company to deliver, within a reasonable period of time before closing, a list of maintenance or renewal fees and filings that are due in the months immediately following the closing. This can help the buyer ensure that no deadlines are missed when the buyer assumes responsibility for maintaining the target company's IP portfolio.

Disclaimer of Trademark Rights

In a carve-out transaction, if the target company's trademarks are key assets, the buyer may require the seller to expressly disclaim all rights in the target company's trademarks. This is to prevent the seller from using or claiming any rights to use those trademarks after the closing. If the seller continues to use any trademarks owned by the target company after closing, this use may cause consumer confusion and impair the buyer's trademark rights.

Transitional Trademark License

In a carve-out transaction, if the target company uses any trademarks that are being retained by the seller, it may need a license to continue using these trademarks for a temporary period after the closing while it transitions away from use.

A short-form license in the purchase or merger agreement typically allows the target company to make limited use of certain of the seller's trademarks that were used in its business before the closing for a relatively brief wind-down period (typically 120 days or less), for example, on existing stationary and signage or in an inventory sell-off. The provision often includes an obligation for the target company to promptly change its corporate name to a name that does not include any of seller's marks. The seller should ensure that the license provisions adequately protect its trademark rights and include the right to exercise quality control over the buyer's use of the seller's marks.

Alternatively, the parties can enter into a separate trademark license agreement (see *Transitional Trademark License Agreement*).

Transitional Domain Names and E-mail Use

For a temporary period after closing that may be co-extensive with the trademark transition period, the seller often agrees in a carve-out transaction to:

- Redirect visitors from the seller's website to a website chosen by the buyer.
- Forward e-mails sent to any transferred employees at retained e-mail accounts.

Third-party Consents

The buyer may require the target company to attempt to obtain consents from counter-parties to some or all of the target company's IP or IT agreements that prohibit assignment to the buyer or include a change-of-control provision if these provisions may be triggered by the transaction (see *Restrictions on Change of Control or Assignment*).

In a carve-out transaction, the parties may heavily negotiate the allocation of the costs of these consents between them and for any agreement for which the seller cannot obtain consent to the contemplated transaction the buyer may obligate the seller to either:

- Obtain commercially reasonable substitutes.
- Provide to the buyer the benefits of the agreement.
- Enforce for the buyer's benefit the seller's rights arising under the agreement.

ANCILLARY IP AND IT AGREEMENTS

In a carve-out transaction, the parties typically enter into ancillary agreements governing their post-closing relationship concerning shared IP and IT assets and services. IP counsel often handles or assists with the following ancillary agreements:

- License agreements for the target company or buyer to continue using certain IP that is used in the target company's business but is being retained by the seller after closing (see *License Agreements*). For example, these may include a transitional trademark license agreement (see *Transitional Trademark License Agreement*).
- IP assignment agreements for the transfer of IP owned by the seller or its other affiliates that is primarily or exclusively used by the target company (see *IP Assignments*).
- A transition services agreement requiring the seller to provide ongoing services to the target company or buyer following the closing. In some cases, the target company or buyer may need to provide services back to the seller (see *Transition Services Agreement*).

These ancillary agreements are typically:

- Mutually agreed on before signing.
- Attached as exhibits to the purchase or merger agreement.
- Signed and delivered at closing.

LICENSE AGREEMENTS

In a carve-out transaction, the seller generally seeks to retain ownership of IP and IT assets owned by it at the time of the acquisition that are primarily used by the seller and its retained businesses. If the target company uses these assets in its business, the target company therefore may require an ongoing license to the seller's IP to continue conducting its business in a consistent manner after closing.

For example, affiliates often exploit patents and know-how in separate fields of use. Proprietary software may also have been developed by the seller and integrated into the target company's business. The buyer may need a license to these IP and IT assets to operate the divested business without infringing the seller's IP rights.

The affiliates' use of shared IP may be covered by intracompany licensing arrangements that can provide a template for ancillary licenses. However, the use of shared IP is often not formalized and IP is used under implied licenses.

The parties must agree on the scope of the license for any IP to be licensed to the target company or buyer. Typically:

- The seller seeks to limit the license to the target company, for example, limiting the license grant to the scope of use at the time of the acquisition.
- The buyer in turn may seek more expansive rights, including the right for the buyer to use the IP or for the scope of the license to cover the growth of the target company's business.

In addition, if the seller or its other affiliates must use any of the target company's IP or IT after closing, they may require a license back of that IP or IT.

Transitional Trademark License Agreement

Ongoing use by the parties of the same marks is typically disfavored both for commercial and legal reasons. Therefore, as part of the purchase or merger agreement (see *Transitional Trademark License*) or as an ancillary agreement, the parties often negotiate a limited license for the target company or buyer to continue using certain of the seller's trademarks for a transitional period following closing.

IP ASSIGNMENTS

In a carve-out transaction, instead of a license, the buyer typically requires the assignment to the target company of any IP that is owned by the seller or its other affiliates and primarily or exclusively used by the target company.

If the seller or its other affiliates need to use these assets after closing, they may require a license back from the target company.

TRANSITION SERVICES AGREEMENT

A transition services agreement typically provides for the seller's continued performance of certain critical shared business functions for the target company (or buyer) during a transitional period after closing. In certain circumstances, the seller requires services to be performed by the target company for its benefit and the parties enter into a bilateral transition services agreement. The services covered by a transition services agreement may include, for example:

- IT, including the target company's access to software and other IT assets retained by the seller and support services.
- Accounting.
- Call center or customer services.
- Website access.
- Legal.

A transition services agreement allows the transaction to proceed without delay while the service recipient secures the relevant services for itself through existing service relationships or new contractual arrangements with third parties.

Consents from third-party licensors or service providers are often necessary because IT licenses generally prohibit sublicensing and IT services agreements often prohibit the customer from acting as a service bureau (providing services to unrelated third parties using the applicable licensed software or other IT assets). The parties typically heavily negotiate the administrative and financial responsibility of obtaining these consents.

For a sample transition services agreement, see *Standard Document, Transition Services Agreement (http://us.practicallaw.com/7-386-4628)*.

POST-CLOSING ISSUES

In a stock purchase or merger transaction, no post-closing steps usually are necessary to document the transfer of the target company's IP assets in connection with the transaction. However, the buyer may need:

- In the case of a forward merger, to file the merger certificate in the USPTO, US Copyright Office and other IP registries to update the record ownership of the target company's IP registrations and applications.
- To make filings in the USPTO, US Copyright Office and other IP registries, to address any chain-of-title issues or unreleased security interests that were not addressed before closing.

The seller in a carve-out transaction may coordinate with the buyer on open matters after closing (see *Carve-out Transactions*), including:

- Any IP issues that the seller could not fix before closing, such as:
  - unreleased security interests; and
  - chain-of-title issues.
- Transfers of any IP that remains owned by the seller or its affiliates but should have been transferred to the target company or buyer as part of the transaction. In this case, the buyer can rely on a "wrong-pocket" provision in the purchase or merger agreement, which specifies the parties' obligations if assets are not owned by the correct entity after the transaction.
- Prosecution and maintenance of the target company's IP.

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