

Intellectual Property Due Diligence in Mergers & Acquisitions

Intellectual property due diligence investigations should be conducted by a party any time a merger, acquisition (“M&A”) or investment is being considered. Intellectual property due diligence involves the gathering of information on the target party’s assets and liabilities, in order to assess the merits and risks of the transaction. One of the most important assets of the target party may be its intellectual property. These intellectual property assets could include patents, trademarks, trade dress, copyrights, trade secrets, and domain names.

Perhaps the greatest cautionary tale supporting the use of intellectual property due diligence is a 1998 purchase by Volkswagen AG. Volkswagen AG bid and paid \$795 million for Rolls-Royce Motor Cars Ltd., but soon discovered that the Rolls-Royce trademark was not part of the deal. Rolls-Royce PLC had gone into receivership in the 1970s and while Rolls-Royce Motor Cars Ltd., had been sold to a third-party company, the trademark had been retained by Rolls-Royce PLC (licensing the use of the brand to the third-party company). After the sale by the third-party company to Volkswagen AG, Rolls-Royce PLC sold the trademark to its engine-manufacturing partner BMW (who had delivered notice that it would discontinue the manufacture of such engines). At the end of the day, Volkswagen AG had spent \$795 million for a luxury car company, but could not use the Rolls-Royce brand and had no engines for its cars.

With respect to mergers and acquisitions, intellectual property due diligence is sometimes conducted by the target party (e.g. to place itself in a better negotiating position), but is typically conducted by the acquiring party. The intellectual property due diligence investigation should begin before even engaging the target party. The acquiring party should first conduct a thorough review of all publicly available information, compiling a complete list of all the registered patents, trademarks, trade dress, copyrights, domain names and other intellectual property assets of the target party. Next, the acquiring party should determine the current registered owner for each of those assets, as well as any liabilities associated with those assets. Liabilities related to intellectual property assets include infringement claims, as well as rights granted to third-parties under any licensing agreements.

After all publicly available information is evaluated and a full and accurate picture of the target party’s intellectual property assets has been created, a non-disclosure agreement (or “NDA”) should be executed between the parties. A non-disclosure agreement should outline the confidential information the parties wish to share with one another and method by which the parties must protect that information from third parties. Once a non-disclosure agreement is established, the acquiring party can request a detailed intellectual property portfolio of the target party. An intellectual property portfolio would include all patents, trademarks, copyrights, trade secrets and other intellectual property assets and can be used to confirm titled to owned assets and ensure that the titles to such assets can be transferred. In order to determine the potential value of the assets and the associated risks, the acquiring party should evaluate all intellectual property assets seeking: (1) the ownership and control of each asset; (2) the economic and strategic value of each asset; and (3) the liabilities associated with each asset.

It is of utmost importance that a detailed and thorough intellectual property due diligence is conducted before any deal is finalized and the specifics of the associated patents, trademarks, copyrights and other intellectual property assets have been established by the acquiring party.

If you are interested in additional information on the topic of intellectual property due diligence, or if you have any questions, please contact a K&K attorney.

K&K offers an array of services in the areas of intellectual property including patents, trademarks, copyrights, trade secrets as well as intellectual property litigation and enforcement. Further information on these and other services is available at www.kk-llp.com.

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