

INTELLECTUAL PROPERTY AND TECHNOLOGY DUE DILIGENCE

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Chapter 16

Conforming the Provisions to Reflect the Due Diligence and the Deal

*By Leah Brownlee**

I. Introduction

Intellectual property is a deal driver. Whether the deal is a license, asset purchase, or stock purchase, the intellectual property held by a company is often the most valuable asset of that company, and it is likely a key component to the future success of the target company or business unit. In the context of a deal in which intellectual property is acquired, several terms that define the scope and breadth of the intellectual property must be defined. The terms needed will vary depending on the type of product the intellectual property covers and how close the product is to the commercial market. For instance, in the life sciences industry, a patent may be licensed that would cover a future product that has not yet been identified, or it may cover a specific compound or device that has received approval for sale from the U.S. Food and Drug Administration, or anywhere in between. The definitions are used primarily within the conveyance section, in the case of a license or asset purchase agreement, and within the representations and warranties sections of all types of transaction

* I would like to thank my daughter for all of her patience and understanding.

documents. In the representations and warranties section, there will most likely be several subsections that address intellectual property specifically, with the requirement that schedules of disclosures (*disclosure schedules*) be created to accompany and supplement the text in these sections of the transaction document.

II. Definitions

Defined terms are used throughout the transaction document, but defined terms specific to intellectual property have certain key uses, such as the language of the license grant in a licensing transaction or the listing of assets purchased in an asset purchase transaction. This section discusses and gives examples of defined terms specific to intellectual property (IP). In addition, for the purposes of the examples in this chapter, the following terms are used throughout as defined here.

Agreement means the transaction document in which the provisions would be included, whether that be a license agreement, asset or stock purchase agreement, or other type of conveyance document. **Company** means the transferor of the intellectual property under the Agreement.

An exemplar of a license grant is shown here with certain terms bolded. Each of these terms is defined in this Section II and discussed in this chapter, and throughout this chapter, when used in examples, each of the discussed terms specific to intellectual property is bolded.

Example License Grant Language

Subject to the terms and conditions of this Agreement, the Company hereby grants Licensor an [exclusive] license under the **Intellectual Property** to: (a) make, have made, develop, import, export, distribute, market, promote, offer for sale, and sell **Products**; (b) practice any method, process, or procedure within the **Intellectual Property**; and (c) otherwise exploit the

Intellectual Technology, each within the **Territory** for use within the **Field**.

Defined terms used here are:

- **Field.** The definition of *field* sets forth the commercial area or field of use in which the intellectual property may be made, used, or sold by the licensor of the technology. Two examples of a specific definition of *field* are:
 - For a pharmaceutical drug product, “**Field** means oncology.”
 - For a software product, **Field** means mobile computer devices and/or communication devices, and the process(es) employed to manufacture such devices.”

Generally, the term *field* is used in the context of a license agreement. In the context of an asset purchase or stock purchase transaction, all fields of use will be transferred to the purchaser, and thus the term may not be used in the related transaction documents.

The information that is gathered during due diligence will indicate what fields of use the product is being developed for, and this knowledge will be useful for drafting the definition in the event that some, but not all, fields of use of the technology are transferred pursuant to the transaction documents.

- **Territory.** This term is also generally used in the context of a licensing agreement. The term is defined to identify the countries or areas (territories) in the world for which rights to the technology at issue such as, rights to make, use, sell, and/or import products and/or services covered by the intellectual property—to the extent such rights exist in those countries—are being transferred pursuant to the Agreement. Two examples of a specific definition of *territory* are:
 - “**Territory** means worldwide,” in a context where the purchaser or licensor negotiates for rights in the technology that are not geographically limited.

- “**Territory** means China, Taiwan, Hong Kong, and Macau,” where a license to the technology in the Chinese market is being negotiated. The defined territory need not align perfectly with the jurisdictions where the intellectual property being transferred has been registered or granted; however, to the extent that the worldwide geography is being split and certain territories (China, Europe, United States, etc.) licensed separately, it will be important to the licensor that it be possible for the licensor to obtain intellectual property rights in the territory.

In gathering and reviewing information during due diligence, it should be determined where the products are currently being marketed or planned to be marketed and where intellectual property exists or can be obtained (e.g., due to a pending patent application). This information will be useful to narrow the definition of the territory based on the business purposes of the transaction.

Intellectual Property is a general term that refers to a diverse category of intangible property and may be used if more than one type of such property is subject to transfer or conveyance. You may find that this term is often used interchangeably with the term technology, however, for the purposes of this chapter, we will use the term *intellectual property* only. Generally, this term will serve to encompass all of the intangible property that is subject to conveyance, whether such property is patents, trademarks, copyrights, know-how, domain names, or mask works, or other types of intellectual property. A sample definition would be: “**Intellectual Property** means copyrights, know-how, patents, trademarks, and trade secrets.” However, in some transactions, the definition may also encompass physical things such as recombinantly made viruses or plasmids. This definition should be tailored to your transaction and terms deleted or added as needed. For instance, if no trademarks or copyrights are being transferred, the definition might read: “**Intellectual Property** means know-how and patents.”

Likewise, if your transaction contains only one type of intellectual property, you would not use the consolidating term “intellectual property” but rather just use the defined term relevant to your transaction. Following are discussions of the specific terms that may be contained within the overarching term *intellectual property*. Although copyrights are discussed in detail in Chapter 5, note that copyrights are enumerable items and therefore the definition may refer to a disclosure schedule of the copyrights that are subject to the transaction. An example of such a definition appears in the following extract. This definition should be tailored to match your transaction. For example, if there are no registered copyrights in your transaction, but the parties are concerned about the transfer of copyrights, you may include only the language at (iii) in the following definition.

Copyrights means (i) the copyright registrations and applications for registration [and copyright licenses] set forth on Schedule (X) hereto and all issuances, extensions, and renewals thereof; (ii) all rights of any kind whatsoever in [transferor] under any of the foregoing provided by applicable law of any jurisdiction, by international treaties, and otherwise throughout the world; and (iii) all other copyrights owned by [transferor] and used in connection with the **Product**, whether registered or unregistered, including the listed registrations and applications that may be granted pursuant to such applications.

Know-how is a broad term that typically covers inventions, ideas, trade secrets, processes, and other information necessary or useful in the manufacture, sale, or use of the product or intellectual property subject to conveyance but which is not the subject of an intellectual property registration. Generally, a transferor may want a broad definition to protect its know-how, whereas the transferee may want a narrow definition. The definition used should be tailored to maximize the parties’ ability to enforce the obligations under the transaction document and should be crafted

to reflect the intellectual property that comprises the know-how that exists and that will be transferred, as well as the trade secret status of the know-how. Information learned through due diligence should be used to tailor the definition to meet the transaction. Two example definitions are:

Know-how means any proprietary technology, information, methods of use, processes, techniques, ideas or inventions (other than the **Patents**) owned, possessed, or used by the **Company** as of the date of the **Agreement** and during the term of the **Agreement** that is directly related to or used in connection with the **intellectual property**, including all trade secrets and any other technical information relating to the development, use, or sale of **Products**.

Know-how means any and all technical information, trade secrets, formulas, prototypes, specifications, directions, instructions, test protocols, procedures, results, studies, analyses, raw material sources, data, manufacturing data, formulation or production technology, conceptions, ideas, innovations, discoveries, inventions, processes, methods, materials, machines, devices, formulae, equipment, enhancements, modifications, technological developments, techniques, systems, tools, designs, drawings, plans, software, documentation, data, programs, and other knowledge, information, skills, and materials controlled by the **Company** [pertaining to the **Patents**] and necessary/useful in the manufacture, sale, and use of the **Products**, and any modifications, variations, derivative works, and improvements of or relating to any of the foregoing.

Patents are discussed in detail in Chapter 6. The term *patents* covers all patents and patent applications worldwide that are subject to the agreement. Like copyrights, patents are enumerable items and therefore, generally, the definition may refer to a

list of the patents and patent applications that are subject to the transaction. A sample definition is:

Patents means the patent applications, any patents issuing directly therefrom, and patents listed in Schedule (X) hereto:

[1] any and all substitutions, extensions, additions, divisionals, continuations, continuations-in-part of any of the patent applications listed in Schedule (X), all reissue applications of any of the patents of the foregoing or listed on Schedule (X), all reissue patents from any of the foregoing reissue applications, all applications for re-examination of any of the patents of the foregoing or listed on Schedule (X), all re-examination certificates of any of the foregoing applications for re-examination, and any extensions of supplementary protection certificates of any patents or claims of the foregoing, renewals, of any of the foregoing (collectively, Later Filings)

[1a] whose claimed subject matter is described in an application or patent identified in Schedule (X)

[2] [, and] any patents in the **Territory** issuing from any applications filed after the effective date that claim priority from, claim the benefit of, or otherwise arise from any such patents and patent applications from which any such patents or patent applications claim priority

[2a] whose claimed subject matter is described in an application or patent identified in Schedule (X)

[3] [,and] any patents in the **Territory** that arise from any Patent Cooperation Treaty (PCT) applications listed on Schedule (X) hereto or that claim priority to a patent application listed on Schedule (X), the patents and patent applications that claim priority from, claim the benefit of, or otherwise arise from said PCT applications, the application(s) from which said PCT

application claims priority and any patents therefor, to the extent the claims thereof enjoy the benefit of any of the foregoing applications, any and all related Later Filings

[4] [, and] other patents and patent applications owned by the **Company** that are necessary, desirable, or useful for manufacturing or otherwise commercializing the **Product**.

Drafting Note: The preceding definition includes six separately listed optional language sections labeled with bracketed numbers at the beginning of each section. The language indicated by [1] is typically included, but the transferor should carefully consider whether to include continuations-in-part, which may include new matter and claim inventions different from those described in the original patent. The language in Sections [2], [3], and [4] each serve to broaden the definition further—by including any related patents (not just ensuing patents) and any patents, whether related or not, needed to commercialize the product. This language may be used to allow the licensor to maximize licensing revenue in a licensing transaction. However, where the licensor has a complex, ongoing licensing program, it should use language that is narrowly tailored so that the licensor retains the right to grant additional licenses under its current patent portfolio as needed and does not prematurely tie up future patents and patent applications. In considering how broad of a definition to include, in the context of a licensing transaction, the benefit of a broad definition to the licensee's freedom to commercialize the product should be weighed against the greater royalty obligation it may create; in the context of an assignment transaction where the transferee will continue to be in business, the broadness of the definition should be closely scrutinized to ensure that it does not cover product lines that are not being transferred. In tailoring the definition, the optional language in sections [1a] and [2a] may be appended to [1] and [2], respectively, to narrow their scopes.

Trademarks are discussed in detail in Chapter 4. In defining trademarks, the terms *trademark* and *mark* are both commonly used. *Mark* is used when both trademarks and service marks are included in the intangible property that is subject to transfer. Below are two sample definitions:

Mark means:

[1] all marks set forth on Schedule (X), together with the goodwill symbolized by and associated with any of the foregoing,

[2] all marks owned by the Licensor that consist of or include [WORD(S)] and have, prior to the date of the **Agreement**, been used in connection with the **Product** by the **Company** or with the **Company's** permission, including those marks listed on Schedule (X), together with the goodwill symbolized by and associated with any of the foregoing, whether registered or unregistered, including the listed registrations and applications that may be granted pursuant to such applications.

Drafting Note: The preceding definition includes two separately listed optional language sections, which are labeled with bracketed numbers. The first optional language is more transferor-friendly, as it sets forth a specific list of items that are marks; thus, everything that is not included will not be considered a mark for the purposes of the transaction document. The second optional language is transferee-friendly, as it broadens the definition of a mark to include things that it may not know about until after the closing of the transaction.

Depending on what the product is, items such as trade names, commercial names, and websites, which may or may not be the subject of a trademark, and generic drug names or United States Adopted Names Council (USAN) names, which are nonproprietary (generic) drug names and may not be the subject of a trademark, may be grouped with trademarks in the agreement or the disclosure schedules.

Product is a term that defines the scope of the license or other transfer (such as asset sale) granted within the scope of the intellectual property agreement (as discussed in Chapter 10). This term also typically defines the net sales price for purposes of determining the royalty payable in a licensing transaction. Often, you will see this term modified as Licensed Product, Purchased Product, Company Product, or some other such variant. Below is a sample definition:

Product means any and all products[, processes][, and services]

[1] listed in Schedule (X) [any other products[, processes] [or services][that may be agreed upon in writing by [transferor] and [transferee] from time to time],

[2] and any other products, processes[, or services] that contain, employ, or are in any way made or produced using, or by the practice of the inventions, discoveries, and information covered by the **Intellectual Property**.

Drafting Note: The separately listed optional language sections include transferor-friendly language (option [1]) and transferee-friendly language (option [1] plus option [2]). The language should be tailored as appropriate to match the business objectives of the transaction and reflect the reality of the stage of development of the products being transferred. For instance, if the product is still in early-stage development, you may want to include the broadest language possible to ensure that the ultimate product commercialized is captured by the language. In contrast, if the product subject to transfer is a well-known, easily identifiable product that the transferor has not been working on improvements to, then inclusion of only a scheduled list may be sufficient.

III. Common Representations and Warranties

The primary transactional documents that govern the transfer of intellectual property from a transferor (the company) to a transferee, whether such documents are a license, asset purchase,

stock purchase, and/or other type of conveyance agreement (the agreement), will typically include a series of representations and warranties that are specifically tailored to the intellectual property being conveyed. Representations and warranties are critical to most transactions, in that, if later found to be untrue, they can provide the basis for a legal claim. Although representations are made by both parties, the target company's representations typically are larger and more heavily negotiated than the transferee's representations. With that in mind, the broader the scope of the language within the representation and warranty clause, the more "transferee-friendly" the clause will be considered, and the inverse.

Typically, an agreement will contain fundamental representations and warranties concerning each party's corporate authority to enter and be bound by the agreement. These rarely vary between transactions. In contrast, representations and warranties specific to the company's intellectual property may vary widely between transactions. These include (1) the company's ownership interest in or basis for its control of the intellectual property to be transferred (see Section III.A); and (2) the company's ability to make the conveyance set out in the agreement. However, due to uncertainty and expense of litigation concerning intellectual property, transferors and transferees often negotiate the level at which a transferor will represent and warranty items such as sufficiency, validity, and enforceability of the to-be-transferred intellectual property, as well as noninfringement of any third-parties' registered intellectual property rights (see Section III.D). The existence of and language contained within such clauses is dependent on each party's negotiating position and power, as well as the deal-specific facts that may be uncovered in due diligence. For instance, a transferor may be able to disclaim these representation (see Section III.G for a sample disclaimer clause), qualify such representations and warranties by the transferor's knowledge (as indicated by bracketed text in following examples), or may give the representation outright, which will shift the risk of liability for future unknown events to the licensor for a period

of time that is either set forth in the agreement or determined by the statute of limitations in the governing-law jurisdiction. In this section, samples of the standard representations that may be found in any one of these agreements are included. Bracketed language throughout this section generally indicates optional language that will typically tip the favorability of the clause in favor of the transferee if included, or in favor of the transferor or for our purposes, if excluded.

A. Representations and Warranties Regarding Ownership and Control of Intellectual Property

Following are samples of representations and warranties regarding a company's ownership and control of intellectual property that is subject to conveyance. In general, the representations and warranties in this section are not modified by knowledge qualifiers, as the company has, or should have, all of the information within its control to make unqualified representations and warranties.

At a minimum, basic ownership and license representations as set out in Section III.B are expected in a conveyance agreement. However, depending on the circumstances under which the intellectual property was developed and the type of intellectual property (each of which will be determined during the transferee's conduct of due diligence), additional clauses that address different aspects of ownership and control may be included when drafting representations and warranties.

B. Ownership and License

Here are two sample clauses to address the basic ownership and license representation that a transferor will likely be asked to make.

The **Company** represents and warrants that:

[Option 1: Basic Representation]

it (i) owns or (ii) has the valid right or license to all
Intellectual Property.

[Option 2: Broader Representation]

it [is the [sole and exclusive] legal and beneficial owner/ has [sole and exclusive] control (by ownership, license, or otherwise)] of the entire right, title, and interest in and to the **Intellectual Property**[, and is the record owner of all **Intellectual Property**];

it has not transferred ownership of any **Intellectual Property** to any third party, or [knowingly] permitted its rights in any **Intellectual Property** to enter the public domain or, with respect to any **Intellectual Property** for which the **Company** has submitted an application or obtained a patent, lapse (other than through the expiration of **Intellectual Property** at the end of its maximum statutory term);

it has, [and throughout the term of the **Agreement**], will retain the unconditional right, power, and authority to grant the [rights/assignment] hereunder.

Drafting Note: The term *intellectual property* as used in such clauses may be replaced by the terms *patents*, *trademarks*, and/or *copyrights*, as may be appropriate.

I. Status of Liens

In addition to ownership of the subject intellectual property, a transferee will want to ensure that there are no encumbrances on the transferor's ownership of the intellectual property. Here are two sample representations and warranties that a transferee may ask a transferor to make.

The **Company** represents and warrants that:

[there neither are nor at any time during the term of the **Agreement** will be any] [there are no] encumbrances, liens, or securities interests involving the **Intellectual Property**;

there are no royalties, honoraria, fees, or other payments payable by the **Company** to any person (other than salaries payable to employees, consultants, and independent contractors not contingent on or related to use of their work product) as a result of the ownership, use, possession, license-in, license-out, sale, marketing, advertising, or disposition of any **Intellectual Property** by the **Company**.

Drafting Note: Include the first bracketed optional language for a license agreement and the second bracketed language for a stock purchase or asset purchase agreement.

2. Licenses to any Intellectual Property

A transferee will also typically want a basic representation regarding who, if anyone, has rights through license or otherwise to use the intellectual property that is owned by the company, and a warranty about the future licensing actions of the transferee in the event the agreement is a license agreement. Here are examples of such representations and warranties:

The **Company** represents and warrants that:

It has not granted [and will not grant] any licenses or other contingent or noncontingent right, title, or interest under or relating to the **Intellectual Property**, or is not under [or will not be under] any obligation, that does or will conflict with or otherwise affect this **Agreement**, including any of the **Company's** representations, warranties, or obligations or transferee's rights [or licenses] hereunder. To the extent that any **Intellectual Property** that is or was third-party **Intellectual Property** is incorporated into, integrated, or bundled with, or used by the **Company** in the development, manufacture, or compilation of any of the **Products**, the **Company** has a written agreement with such third party with respect thereto pursuant to which the **Company** either (i) has obtained

complete, unencumbered and unrestricted ownership of, and is the exclusive owner of, such **Intellectual Property** by operation of law or by valid assignment, or (ii) has obtained perpetual, nonterminable (other than for breach, and not with respect to the third-party **Intellectual Property** included within a **Product**), transferrable licenses (sufficient for the conduct of its business as currently conducted by the **Company** and as currently proposed to be conducted by the **Company**) to all such third-party **Intellectual Property**.

Drafting Note: The bracketed language in the preceding sample clause should be included in a license agreement and excluded from asset and stock purchase agreements.

3. Intellectual Property Agreements

A representation and warranty clause may be included in the agreement, with regard to intellectual property licenses held by the Company.

[Option 1: Narrower Representation]

Each **Intellectual Property** license is valid and binding on Seller in accordance with its terms, and is in full force and effect.

[Option 2: Broader Representation]

Each **Intellectual Property** license is valid and binding on Seller in accordance with its terms and is in full force and effect. [To Seller's knowledge,] [T/t]he Seller is not breach of or default under (or is alleged to be in breach or default under), or has provided or received any notice of breach or default of or any intention to terminate, any **Intellectual Property** license. No event or circumstance has occurred that would constitute an event of default under any **Intellectual Property** license or result in the termination, or cause or permit the acceleration, or effect any other changes of any

right or obligation or the loss of any benefit, under any **Intellectual Property** license.

4. Employee and Contractor Intellectual Property Assignments

A representation and warranty clause that may be included in the agreement, especially within the context of the intellectual property being developed within a growing company, is with regard to the proper assignment of the intellectual property by the person(s) who invented or developed it. Here are examples of representations and warranties that a transferee may ask a transferor to give:

The **Company** represents and warrants that:

it has secured from all (i) consultants, advisors, employees, and independent contractors who independently or jointly contributed to or participated in the conception, reduction to practice, creation, or development of any **Intellectual Property** for the **Company** and (ii) named inventors of patents owned or purported to be owned by the **Company** (any person described in clause (i) or (ii) is an “Author”), unencumbered and unrestricted exclusive ownership of all of the Authors’ right, title, and interest in and to such **Intellectual Property**, and the Transferor has obtained the waiver of all nonassignable rights. Except for such nonassignable rights, no Author has retained any rights, licenses, claims, or interest whatsoever with respect to any **Intellectual Property** developed by the Author for the **Company**. [Without limiting the foregoing, (i) the **Company** has obtained binding written and enforceable proprietary information and invention disclosure and **Intellectual Property** assignments from all current and former employees and, in the case of patents and patent applications, such assignments have been recorded with the relevant authorities in the applicable jurisdiction or jurisdictions, and (ii) all rights in, to, and under all **Intellectual Property** created by

the **Company's** founders for or on behalf or in contemplation of the **Company** (a) prior to the inception of the **Company**; or (b) prior to their commencement of employment with the **Company** have been duly and validly assigned to the **Company**.] [The **Company** has provided to [Transferee] copies of all forms of such disclosure and assignment documents currently and historically used by the **Company** and, in the case of the patents, the **Company** has provided to [Transferee] copies of all such assignments.]

5. University Funding or Affiliations

In certain transactions, it may be known—or there may be concern—that the intellectual property was developed with government funding, thus potentially subjecting the intellectual property to march-in rights pursuant to 35 USC Section 203 and/or, if developed within a university or with university funding, causing a university to have claim to ownership to some or all of the intellectual property. A clause such as the following one may be included in the agreement to directly address this concern.

The **Company** represents and warrants that:

no (i) government funding, (ii) facilities of a university, college, other educational institution, or research center, or (iii) funding from any person (other than funds received in consideration for equity of the **Company's**) was used in the development of the **Intellectual Property**. [No current or former employee, consultant, or independent contractor of the **Company** who was involved in, or who contributed to, the creation or development of any **Intellectual Property**, has performed services for any government, university, college, other educational institution, or research center during a period of time during which such employee, consultant, or independent contractor was also performing services for the **Company**.]

6. Open Source Materials and Source Code Escrows

When the intellectual property contains software, a transferee may request that the transferor make representations and warranties about the use of open source materials and source code escrows. Following are definitions that may be used in transaction documents for open source materials and company source code and examples of such representations and warranties.

Definitions:

“Open Source Materials” means software or other material that is distributed as “free software,” “open source software,” or under a license that requires, as a condition of the use, modification, or distribution of such software, that any software incorporated into, combined with, or derived from such software be (i) disclosed or distributed in source code form, (ii) licensed for the purpose of making derivative works, and (iii) redistributable at no charge, including under any of the following licenses: the GNU General Public License (GPL), the GNU Lesser General Public License (LGPL), the Mozilla Public License (MPL), BSD licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL), the Sun Industry Standards License (SISL), and the Apache License.

“Company Source Code” means, collectively, any software source code or database specifications or designs, or any material proprietary information or algorithm contained in or relating to any software source code or database specifications or designs, of any **Intellectual Property** or **Products** (excluding third-party intellectual property that the **Company** is not obligated to keep confidential).

Sample representations and warranties:

The **Company** represents and warrants that:

[Open Source Materials]

Schedule (X) lists all Open Source Materials that are used, integrated, or distributed by the **Company** in conjunction with **Products**; identifies the applicable license, website, or other source from which the Open Source Materials were obtained; and describes the manner in which such Open Source Materials are used or integrated (such description shall include whether (and, if so, how) the Open Source Materials were modified and/or distributed by the **Company**). The **Company** is in compliance with the terms and conditions of all licenses for the Open Source Materials;

the **Company** has not combined or distributed Open Source Materials with any **Product**, or otherwise used Open Source Materials, in such a way that obligates the **Company** to grant to any third party any rights or immunities under any **Intellectual Property**, including obligations that **Intellectual Property** be (A) disclosed or distributed in source code form, (B) licensed for the purpose of making derivative works, or (C) redistributable at no charge;

[Source Code Escrow]

Neither the **Company** nor any other person then acting on its behalf has disclosed, delivered, or licensed to any person; agreed to disclose, deliver, or license to any person; or permitted the disclosure or delivery to any escrow agent or other person of, any Company Source Code. No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the disclosure, delivery, or license by the **Company** or any person then acting on its behalf to any person of any Company Source Code. [Schedule (X) identifies each contract pursuant to which

the **Company** has deposited, or is or may be required to deposit, with an escrow holder or any other person, any of the Company Source Code, and describes whether the execution of this **Agreement** or any of the transactions contemplated by this **Agreement**, in and of itself, would reasonably be expected to result in the release from escrow of any Company Source Code.]

C. Membership in Any Standards Organizations

A standards organization, standards body, standards developing organization, or standards setting organization is an organization whose primary activities are developing, coordinating, promulgating, revising, amending, reissuing, interpreting, or otherwise producing technical standards that are intended to address the needs of a group of affected adopters.¹ There are thousands of standards organizations worldwide. Examples of well-known standards organizations that may affect the parties to the transaction agreement include the International Organization for Standardization (ISO), which creates documents that provide requirements, specifications, guidelines or characteristics that can be used consistently to ensure that materials, products, processes, and services are fit for their purposes; the International Electrotechnical Commission (IEC), which creates and publishes standards for electrical and electronic technologies; the International Telecommunication Union (ITU), which serves the field of information and communications technology; the Joint Electron Device Engineering Council (JEDEC), which is a semiconductor engineering trade organization that also develops standards for the microelectronics industry; and the American National Standards Institute (ANSI), which oversees the development of voluntary, consensus-developed standards.² Many organizations

1. Wikipedia, *Standards organizations*, https://en.wikipedia.org/wiki/Standards_organization (last edited February 6, 2018).

2. Karen Bartleson, *10 Standards Organizations That Affect You (Whether You Know It Or Not)*, *ELECTRONIC DESIGN* (May 14, 2013), <http://www.electronicdesign.com/communications/10-standards-organizations-affect-you-whether-you-know-it-or-not>.

have company members and the company membership obligations can vary greatly between organizations. A transferee of intellectual property may want to ensure that the transferor either does not belong to one of these organizations, or if it does, to better understand what type of obligations that organization imposes on its members with regard to sharing rights to intellectual property. Following is a sample representation and warranty regarding transferor membership in and obligations to standards organizations.

The **Company** represents and warrants that:

it is not now, and has never been, a member of, or a contributor to, any industry standards body or any similar organization that could reasonably be expected to require or obligate the **Company** to grant or offer to any other person any license or right to any **Intellectual Property**. In addition, if any **Intellectual Property** were acquired from a person other than an employee of or contractor of the **Company**, then such person is not now nor has ever been a member or promoter of, or a contributor to, any industry standards body or any similar organization that could reasonably be expected to have required or obligated such person to grant or offer to any other person any license or right to such **Intellectual Property**. The **Company** has no current obligation (and there is no substantial basis to expect that there will be a future obligation) to grant or offer to any other person any license or right to any **Intellectual Property** by virtue of the **Company's** membership in, or contributions to, any industry standards body or any similar organization.

D. Liability-Shifting Representations and Warranties

The following types of representations and warranties address concepts that cannot be fully known by a transferor; however, often the parties negotiate the inclusion of such transferor

representations and warranties to shift all or some of the risk of the unknown to the transferor. The breadth of the language included in such representations is highly dependent on the negotiating power of the parties.

1. Sufficiency of Intellectual Property

In transactions in which company equity or a business unit is being purchased a transferee will often ask the transferor to represent that the intellectual property subject to the agreement is sufficient for the purposes of the business transaction that underlies the agreement. Typically, it will not be acceptable for the transferor to qualify this type of representation by its knowledge, as this representation is essentially a promise by the transferor to the transferee that the statements it made about the sufficiency of its intellectual property in negotiating or “selling” the deal are correct. Here are samples of such representations:

The **Company** represents and warrants that:

the **Intellectual Property** is sufficient for the conduct of the [business of the **Company**] [Business] as currently conducted and as currently proposed to be conducted by [the **Company**] [the transferee].

Drafting Note: Use the first bracketed text options for an equity purchase agreement. For an asset purchase of a business unit, use the second bracketed text options and define the term “Business” within the agreement.

2. Validity and Status of Registered Intellectual Property

A transferee also often requests that the transferor make a representation that the intellectual property that is being transferred, to the extent it is subject to a governmental registration filing (referred to herein as *registered intellectual property*), is valid. Additionally, such representation may be expanded to cover the current filing status of the registered intellectual property. This type of representation is often qualified by the company’s

knowledge to the extent that the representation being made cannot be fully known by the company. The following are examples of such clauses.

[Example 1: Validity only representation]

The **Company** represents and warrants that:

[to its knowledge,] no prior art or other information exists that would adversely affect the validity, enforceability, term, or scope of any Registered **Intellectual Property**.

[Example 2: Validity and status representation]

Each item of **Intellectual Property** is subsisting, and [to the **Company's** knowledge] valid (or in the case of applications, applied for), and all registration, maintenance, and renewal fees currently due in connection with such **Intellectual Property** have been paid and all documents, recordations, and certificates in connection with such **Intellectual Property** currently required to be filed have been filed with the relevant patent, copyright, trademark, or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of prosecuting, maintaining, and perfecting such **Intellectual Property** and recording the **Company's** ownership interests therein.

[Example 3: Current status of intellectual property]

Schedule (X) lists all **Intellectual Property**, including the jurisdictions in which each such item of **Intellectual Property** has been issued or registered or in which any application for such issuance and/or registration has been filed, or in which any other filing or recordation has been made. Schedule (X) sets forth a list of all actions that are required to be taken by the **Company** within 90 days of the date of the **Agreement** with respect to any of the **Intellectual Property** in order

to avoid prejudice to, impairment of, or abandonment of such **Intellectual Property**.

Drafting Note: The schedules are created far in advance of the “effective date” of a transaction, therefore, a schedule should be updated right before signing of the transaction.

3. Third-party Infringement

Representations with regard to whether the intellectual property infringes upon or is infringed upon by third-party intellectual property are also typically requested by the transferee. These representations are typically qualified by company knowledge, thus ensuring that everything the company knows about is disclosed to the transferee. Following are examples of such representations and warranties.

[Example 1: Infringement of the intellectual property to-be-transferred by third parties]

The **Company** represents and warrants that:

[to the knowledge of the **Company**,] there is no unauthorized use, unauthorized disclosure, infringement, or misappropriation of any **Intellectual Property**, by any third party, including any employee or former employee of the **Company**. The **Company** has not brought any action, suit, or proceeding for infringement or misappropriation of any **Intellectual Property** or breach of any agreement related to the **Intellectual Property**.

[Example 2a: No infringement of third-party intellectual property]

The **Company** has not been sued in any suit, action, or proceeding (or received any written notice or[, to the knowledge of the **Company**,] threat) that involves a claim of infringement or misappropriation of any intellectual property right of any third party or that contests the validity, ownership, or right of the **Company** to

exercise any **Intellectual Property** right. The **Company** has not received any written communication that involves an offer to license or grant any other rights or immunities under any third-party intellectual property right.

[Example 2b: No infringement of third-party intellectual property]

The conduct of the **Company** as currently, formerly, and proposed to be conducted, [and the **Intellectual Property** as currently or formerly owned, licensed, or used by the **Company**] have not knowingly infringed, misappropriated, or otherwise violated, and do not knowingly infringe, misappropriate, or otherwise violate, any third-party **Intellectual Property** right.

[Example 3: No infringement of third-party intellectual property by the business of the Company]

The **Company** is not aware of any basis for a claim of liability for infringement or misappropriation of any third-party intellectual property or for unfair competition or unfair trade practices under the laws of any jurisdiction. The operation of the business of the **Company** as such business is currently conducted and as currently proposed to be conducted by the **Company**, including (i) the design, development, manufacturing, reproduction, marketing, licensing, sale, offer for sale, importation, distribution, provision, and/or use of any **Product**, and (ii) there is no known, alleged, or suspected basis for a claim that the design, development, manufacturing, reproduction, marketing, licensing, sale, offer for sale, importation, distribution, provision, and/or use of any **Product** of the **Company** will infringe, is infringing, or has infringed on or misappropriated any third-party intellectual property, or constitutes or has

or will constitute unfair competition or unfair trade practices under the laws of any jurisdiction.

Drafting Note: The preceding clause should be used in a business purchase or licensing agreement and modified as necessary to reflect a stock or asset purchase transaction.

4. No Pending/threatened Infringement Claims by a Third Party, or Status of any Litigation

A transferee will want assurances from the transferor about the lack of pending/threatened litigation that affects the intellectual property, product, or business of the company (in the case of an equity transaction). In the event litigation exists, understanding the status of pending/threatened litigation and how such litigation may affect the value of the transaction to the transferee in the future will be of key importance to a transferee. The following are sample representations that a transferee may request from a transferor with respect to such concerns.

The Company represents and warrants that:

[Example 1: representation about pending litigation only—Company-friendly]

Neither the **Intellectual Property** nor the **Company** is subject to any proceeding or outstanding order or stipulation (i) restricting in any manner the use, transfer, or licensing by the **Company** of any **Intellectual Property** or any **Product**, or that may affect the validity, use, or enforceability of any such **Intellectual Property**, or (ii) restricting the conduct of the business of the **Company** in order to accommodate third-party intellectual property.

[Example 2: representation about pending or threatened litigation—Transferee-friendly]

There is no settled, pending, or [to its knowledge] threatened litigation, [, or reissue application, re-examination,

port-grant, *inter partes*, or covered business method review, interference, derivation, opposition, claim of invalidity,¹ or other claim or proceeding [(including in the form of any offer to obtain a license)]:

(i) alleging the unpatentability, invalidity, misuse, unregistrability, unenforceability, or noninfringement of, or error in any **Intellectual Property**; [or]

(ii) challenging **Company's** ownership of, or right to practice or license, any **Intellectual Property**, or alleging any adverse right, title, or interest with respect thereto[;][or]

[alleging that the practice of the **Intellectual Property** or the making, using, offering to sell, sale, or importation of any **Product** [in the **Field**] in the **Territory** does or would infringe, misappropriate, or otherwise violate any patent, trade secret, or other intellectual property of any third party].

It has no knowledge [after reasonable investigation] of any factual, legal, or other reasonable basis for any litigation claim, or proceeding described in Section (X); [and]

[it has not received any written, oral, or other notice of any litigation, claim, or proceeding described in Section (X); and]

it has not brought or threatened any claim against any third party alleging infringement of any **Intellectual Property**, nor[, to its knowledge,] is any third party infringing or[, to its knowledge,] preparing or threatening to infringe any patent, or practicing any claim of any patent application, included in the Intellectual Property.

Drafting Note: Language marked with ¹ is to be included if patents are a key part of the intellectual property to be transferred.

E. Employee and Contractor Matters

In addition to the representations and warranties regarding employee and contractor assignments of intellectual property discussed in Section III.B.3, a transferee may also ask a transferor to bear the risks of (a) any violation by its current and former employees and contractors of any clause of any company contract relating to invention assignment, nondisclosure, or confidentiality of information including prohibitions on the use or development for the company of intellectual property assigned to or confidential or proprietary information of a third party. The following is a sample representation that addresses these topics.

The **Company** represents and warrants that:

[to the knowledge of the **Company**,] no current or former employee, consultant, or independent contractor of the **Company** (i) is in violation of any term or covenant of any contract relating to employment, invention disclosure (including patent disclosure), invention assignment, nondisclosure, or any other contract with any other party by virtue of such employees, consultants, or independent contractors being employed by, or performing services for, the **Company** or using trade secrets or proprietary information of others without permission, or (ii) has developed any technology, software, or other copyrightable, patentable, or otherwise proprietary work for the **Company** that is subject to any agreement under which such employee, consultant, or independent contractor has assigned or otherwise granted to any third party any right or interest in or to such technology, software, or other copyrightable, patentable, or otherwise proprietary work.

F. Compliance with Privacy Laws

Depending on the industry within which the transaction is being conducted, there may be specific concerns about how the company

handles its data and its compliance with both its internal privacy policies and applicable privacy laws. Following are examples of basic representations and warranties that may be used in such situations.

The **Company** represents and warrants that:

it has a privacy policy regarding the collection, storage, use, disclosure, transfer, and disposal of personally identifiable information [collected by or for the **Company**, or by third parties having authorized access to the records of the **Company**] [in the **Company's** possession, custody, or control, or otherwise held or processed on its behalf] and is and [in the past [NUMBER] years] has been in compliance [in all material respects] with such privacy policy. [True and complete copies of all privacy policies that have been used by the **Company** [in the past [NUMBER] years] have been provided to the transferee. The Company has [in the past [NUMBER] years] posted a privacy policy in a clear and conspicuous location on all websites [and mobile applications] owned or operated by the **Company**];

the **Company** has complied at all times [in all material respects] with all applicable laws regarding the collection, storage, use, disclosure, transfer, and disposal of personally identifiable information [, including [LIST SPECIFIC LAWS and REGULATIONS]]; and

the execution, delivery, and performance of the Company's obligations under this **Agreement** will comply with all applicable legal requirements relating to privacy and with the **Company's** privacy policies. The **Company** has not received a notification of breach or complaint regarding the **Company's** collection, storage, use, disclosure, transfer, and disposal of personally identifiable information.

G. Disclaimer

Occasionally, depending upon the transferor's negotiating power, a transferor may be able to avoid giving any representations or warranties and will instead include a disclaimer of all representations and warranties within the agreement. This type of language will substantially shift the risk of future liability regarding the related intellectual property and the product (s) to the transferee. If a transferee accepts this type of language, it should be comfortable that it has done sufficient due diligence to quantify such risk. The following is an example of such a disclaimer.

THE **COMPANY** EXPRESSLY DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES, WHETHER WRITTEN, ORAL, EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, CONCERNING THE VALIDITY, ENFORCEABILITY, AND SCOPE OF THE **INTELLECTUAL PROPERTY**; THE ACCURACY, COMPLETENESS, SAFETY, USEFULNESS FOR ANY PURPOSE, OR LIKELIHOOD OF SUCCESS (COMMERCIAL, REGULATORY, OR OTHER) OF THE **PRODUCTS, KNOW-HOW**, AND ANY OTHER TECHNICAL INFORMATION, TECHNIQUES, MATERIALS, METHODS, PRODUCTS, PROCESSES, OR PRACTICES AT ANY TIME MADE AVAILABLE BY THE **COMPANY**, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY, QUALITY, FITNESS FOR A PARTICULAR PURPOSE, AND NONINFRINGEMENT AND WARRANTIES ARISING FROM A COURSE OF DEALING, COURSE OF PERFORMANCE, USAGE, OR TRADE PRACTICE. WITHOUT LIMITATION TO THE FOREGOING, THE **COMPANY** SHALL HAVE NO LIABILITY WHATSOEVER TO TRANSFEREE OR ANY OTHER PERSON FOR OR ON ACCOUNT OF ANY INJURY, LOSS, OR DAMAGE, OF ANY KIND OR NATURE, SUSTAINED BY, OR ANY DAMAGE ASSESSED OR ASSERTED

AGAINST, OR ANY OTHER LIABILITY INCURRED BY OR IMPOSED ON LICENSEE OR ANY OTHER PERSON, ARISING OUT OF OR IN CONNECTION WITH OR RESULTING FROM (A) THE MANUFACTURE, USE, OFFER FOR SALE, SALE, OR IMPORT OF A **PRODUCT**, OR THE PRACTICE OF THE **INTELLECTUAL PROPERTY**; (B) THE USE OF OR ANY ERRORS OR OMISSIONS IN ANY KNOW-HOW, TECHNICAL INFORMATION, TECHNIQUES, OR PRACTICES DISCLOSED BY THE **COMPANY**; OR (C) ANY ADVERTISING OR OTHER PROMOTIONAL ACTIVITIES CONCERNING ANY OF THE FOREGOING.

IV. Disclosure Schedules

The *disclosure schedules* are a collection of lists attached to the agreement that supplement the representations and warranties made by the parties to the agreement. Disclosure schedules either function to inform the transferee about the target business or intellectual property (information schedules) or provide exceptions to the representations and warranties (exception schedules). Information schedules are typically identified either in the text of defined terms or in the text of the representation and warranties clause, each as exemplified in the preceding examples. Exception schedules are identified by text such as “*except as set forth on Schedule [X]*” included within any representation or warranty clause that would constitute an untrue statement but for the listed exceptions. The disclosure schedules should include an accurate listing of information as of the date of signing of the agreement and may or may not be able to be updated in the event there is a separate closing date. This section discusses specific information that is typically listed on information schedules with regard to intellectual property and licenses of intellectual property.

A. Intellectual Property

Registered intellectual property is typically listed with its respective registration or issuance information in tabular form. Tables 16.1 and 16.2 are examples of tabular listings for patents and trademarks as called for by the example definitions in Section II of this chapter. Additionally, a transferee may ask for listings of unregistered intellectual property, such as unregistered copyrights, trade names, domain names, and trade secrets such as customer lists, manufacturing processes, and the like. With respect to registered and issued intellectual property, during the due diligence process, the relevant national and state administrative offices should be checked to confirm that all information provided by the transferor about the existence and status of the intellectual property is accurate. Such checks can be used to validate the information included in the disclosure schedules as well as the information provided in the due diligence process.

B. Copyrights

In addition to the list of registered copyrights called for by the example definition in Section II, a transferee may ask a transferor to provide a list of all material unregistered copyrights owned by the transferor that are subject to the agreement. Because it is not unusual for copyrights to be unregistered, the schedule may be the only way for the transferee to be confident that it understands the scope of relevant copyrighted works.

C. Patents and Other Inventions

An information schedule of patents and patent applications should be included to help complete the definition of patents within the agreement. As a rule, information about patents and patent applications can be found through various publicly available patent databases, and therefore the information disclosed by the transferor regarding the patents can be independently verified during the due diligence process. However, nonprovisional

Table 16.1: Sample Tabular Structure for Patent Disclosure

Country	Patent or Application No.	Issue of Filing Date	Status (Pending or Issued)

patent applications are not published for eighteen months following filing, and provisional patent applications are only published at the same time or after the respective nonprovisional applications have been published.

The disclosure schedule for issued patents should include, at a minimum, the issue date, patent number, and issuing jurisdiction; for pending patent applications, the schedule should include the filing date, application serial number, and filing jurisdiction (country). Table 16.1 is an example of a tabular structure for disclosure of registered patents.

In addition to the information listed in such a table, the parties may agree to include additional information, such as the priority date, expected expiration date, inventor(s), assignee(s) (if different from the company), docket number, patent or application title, whether the product covered by the patent may be subject to a regulatory exclusivity period, and so on. In the tabular listing of patents, a particular patent application will be listed separately for each country in which it is filed. As a result, there may be many patent listings that have identical titles.

A company may also have patentable inventions for which patent applications have not yet been filed, or for which the transferor has decided not to make such filing and that will instead be held as trade secrets. Such inventions may be material to the transaction of the business of the company. These inventions are included within know-how, but the transferee may require the company to enumerate them in minimal identifiable detail in the disclosure schedules. It is possible that the company has memorialized the information regarding such inventions

internally on an invention disclosure form, a copy of which may be provided during due diligence. The following is an example of a disclosure listing for an unfiled invention:

[Invention Title] was invented by [Name] and disclosed to **Company** on [DATE], as memorialized in [lab notebook no. ___] [,and] [invention disclosure no. ___]. The **Company** has not filed a patent application regarding this invention [and intends to hold the invention as a trade secret][, but intends to make such filing in the future]. Following is a brief summary of [Invention Title]: [insert a one- to two-sentence summary].

D. Trademarks, Trade Names, and Domain Names

Information schedules of trademarks and related intangible property such as trade names and domain names are generally included in the disclosure schedules. As with patents, information about registered trademarks and trademark applications can generally be found through public registries, and therefore the information disclosed by the company regarding such trademarks can be independently verified during the due diligence process.

The disclosure schedule regarding trademarks should include, at a minimum, for issued trademarks, the issue date, registration number, mark, and filing jurisdiction; and for pending trademark applications, the filing date, application serial number, and filing jurisdiction. The disclosure schedule should include not only a simple list of registered and unregistered marks, but also any other related indicia (e.g., a word mark may be registered only in block capitals, but is generally used in a particular color combination or font), which may also be identified on the disclosure schedule. When the agreement covers both work and logo marks, the disclosure schedule should also identify whether these marks may be used only separately (or, alternatively, only together). Table 16.2 is an example of a tabular structure for disclosure of registered trademarks.

Table 16.2: Sample Tabular Structure for Trademark Disclosure

Country	Serial/ Registration No.	Mark (word and image)	Filing or Issue Date	Status

The parties may also agree to include additional information, such as the first-in-use date, goods and services, type of mark, docket number, and so on. Additionally, if several registrations of essentially one mark, each in slightly different forms, is being conveyed in the transaction, it is useful to identify the “principal mark” in the schedule before listing all registrations and applications for that mark in the countries of the territory, followed by details of use of the mark by the company in any other countries of the territory.

Related to trademarks are unregistered trade names or commercial names that may be used by the company. These may be legal or fictitious business names of the business (*d/b/a name*), which are not eligible for federal trademark registration; or they may be product names, service-offering names, and the like that are eligible for registration. A listing of trade names should be separate from the trademark listing and would typically include, depending on the context of use, the trade name, information about how the name is used (e.g., picture of use), related indicia, territory where the trade name is used, and information about how long the trade name has been used (such as first-in-use date) in each territory.

Also related to trademarks are domain names and social media pages that may be conveyed to the transferee. If domain names and/or social media pages are being conveyed in the transaction, a listing of such domain names (which includes at a minimum the domain name and the current registrar) should be included as an information schedule.

E. Inbound and Outbound Licenses

In an acquisition transaction, an information schedule of current inbound and outbound licenses to intellectual property will often be included. Copies of these licenses, to the extent that they are material, are typically reviewed during due diligence. The provision of and review of these licenses make the actual disclosure listing of the licenses on the disclosure schedules fairly simple. All such licenses may be included in an uncategorized listing, or they may be categorized by their inbound or outbound nature, or relation to a product or a specific item within the intellectual property. An example of a typical license listing is:

[Patent License Agreement], dated [MM/DD/YYYY],
by and between the **Company**, [as licensor/licensee]
and [licensor/licensee name], *regarding license of*
[_____].

Drafting Note: The italicized text in this example is optional but useful to include if licenses to several different patents, trademarks, types of technology, or products are issued by the company.

V. Conclusion

Provisions relating to intellectual property in transaction documents are heavily dependent upon the intellectual property being conveyed in the agreement and should be reviewed and drafted carefully to ensure that they accurately describe and encompass the intellectual property being conveyed and make accurate statements regarding such intellectual property. Special attention should be paid to representations and warranties regarding intellectual property, and the transferor Company should be advised as to the level of risk that it is being asked to take on by the transferee in making certain statements, especially to the extent that the transferee does not agree to modifying statements so that they are made *to the company's knowledge*.