Technology M&A

Contributing editors
Arlene Arin Hahn and Jason Rabbitt-Tomita

2019

GETTING THE DEAL THROUGH

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Technology M&A 2019

First edition

Getting the Deal Through is delighted to publish the first edition of *Technology M&A*, which is available in print, as an e-book and online at www.gettingthedealthrough.com.

Getting the Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

Getting the Deal Through titles are published annually in print and online. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Getting the Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to Arlene Arin Hahn and Jason Rabbitt-Tomita, the contributing editors, for their assistance in devising and editing this volume.

GETTING THE
DEAL THROUGH

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White & Case LLP

Structuring and legal considerations

1 What are the key laws and regulations implicated in technology M&A transactions that may not be relevant to other types of M&A transactions? Are there particular government approvals required, and how are those addressed in the definitive documentation?

In the United States, the primary IP federal statutes implicated by technology M&A transactions are the Patent Act (35 USC section 1 et seq), the Copyright Act (17 USC section 101, et seq), the Lanham (Trademark) Act (15 USC section 1051, et seq), the Defend Trade Secrets Act (18 USC section 1836, et seq), and the Semiconductor Chip Protection (Mask Works) Act (17 USC section 901, et seq). State statutory and common law governing trademarks, trade secrets and contractual rights (including rights under invention assignment and confidentiality agreements and licences) are also typically implicated by technology M&A transactions.

Additionally, there are numerous US federal and state statutes that govern the collection, processing, use and disclosure of data in ways that are more likely to implicate technology M&A transactions than other types of transactions, including laws pertaining to electronic surveillance (eg, the federal Electronic Communications Privacy Act); laws pertaining to data about children under the age of 13 (eg, the federal Children's Online Privacy Protection Act); and laws pertaining to financial technology that require secure development processes (eg, New York State Department of Financial Services Cybersecurity Regulation). Further, cloud service providers (including data centres) that act as third-party processors are often contractually bound to comply with regulatory requirements of their customers, which often include the Health Insurance Portability and Accountability Act of 1996, the Gramm–Leach–Bliley Act, the Sarbanes–Oxley Act, the Defense Federal Acquisition Regulation Supplement and the Family Educational Rights and Privacy Act of 1974.

Investments in sensitive technologies by non-US parties may be subject to review by the Committee on Foreign Investment in the United States (CFIUS). CFIUS is a Treasury Department-led committee that conducts national security reviews of foreign direct investment into the United States. CFIUS conducts a risk-based analysis on an investment based on certain key factors:

- threat: whether the foreign investor has the capability or intent to exploit vulnerability or cause harm;
- vulnerability: the national security risks associated with the US target, including the sensitivity of its technologies; and
- consequence: the consequences of the combination of the threat and vulnerability.

The review process may result in transactions being suspended, blocked or subject to mitigation, even after closing. Parties to a transaction may file a joint voluntary notice to obtain formal clearance of a transaction and prevent CFIUS from revisiting the transaction. New CFIUS reform legislation recently passed and will expand CFIUS's jurisdiction and provide a short-form 'declaration' process – which may be mandatory in certain circumstances – that may enable quicker resolution in certain cases.

2 Are there government march-in or step-in rights with respect to certain categories of technologies?

The US government has march-in rights with respect to inventions conceived or first actually reduced to practice in the performance of work under federally funded research and development contracts with small business firms or non-profit organisations (subject inventions) under the Bayh–Dole Act (35 USC sections 200-212). Under the Bayh–Dole Act, if the contracting organisation elects to retain title to a subject invention for which it has obtained assignment, it is subject to various obligations, including granting the applicable federal agency a non-exclusive, non-transferable, irrevocable and paid-up licence to practise or have practised any subject invention throughout the world. In addition, the federal agency under whose funding agreement the subject invention was made has the right to require that the contractor, assignee or exclusive licensee to a subject invention grant a licence to a third party in any field of use. If the party refuses to do so, the federal agency may grant the licence itself. The Act specifies that the US government may exercise such march-in rights if it determines that such action is necessary under the following circumstances:

- the contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve the practical application of the subject invention in such field of use;
- to alleviate public health or safety needs not reasonably satisfied by the contractor, assignee or licensee;
- to meet requirements for public use specified in federal regulations and such requirements are not reasonably satisfied by the contractor, assignee or licensee; or
- if the agreement required by 35 USC section 204 (preference for US industry) has not been obtained or waived or because an exclusive licensee of the subject invention in the United States is in breach of its obligation thereunder to manufacture substantially in the United States any products embodying the subject invention or produced through the use of the subject invention.

3 How is legal title to each type of technology and intellectual property asset conveyed in your jurisdiction? What types of formalities are required to effect transfer?

Patents

Although US patent rights are protected under federal law, legal title in patents after the initial owner or owners is generally determined under applicable state law. For patent applications filed before 16 September 2012, ownership initially vests in the named inventors. For patent applications filed on or after 16 September 2012, the original applicant is presumed to be the initial owner. Ownership of a patent or patent application is assignable by written instrument, which is governed by applicable state contract law. Under the Patent Act, any assignment, grant or conveyance of a patent shall be void as against any subsequent purchaser or mortgagee for valuable consideration, without notice, unless it is recorded in the US Patent and Trademark Office (USPTO) within three months from its date or prior to the date of such subsequent purchase or mortgage.

Copyrights

Although US copyrights are also protected under federal law, legal title in copyrights after the initial owner or owners is generally determined under applicable state law. Copyright in a work initially vests in the author or authors of the work. If the work is a 'work-made-for-hire', the employer or other person for whom the work was prepared is considered the author (and unless otherwise expressly agreed in a signed written instrument, owns the copyright in the work). Ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law. In addition, for works other than works made for hire, any assignments or licences of copyrights executed by the author on or after 1 January 1978 (other than by will) are subject to termination under certain conditions, including death of the author. A transfer of copyright ownership, other than by operation of law, is not valid unless in writing and signed by the owner of the rights conveyed (or duly authorised agents). Although recording of any transfer of rights is not mandatory, proper recording of a document in the US Copyright Office provides constructive notice of such transfer. Between two conflicting transfers, the one executed first will prevail if it is properly recorded within one month after its execution in the United States (or within two months if outside of the United States), or at any time before proper recording of the later transfer. Otherwise, the later transfer prevails if it is properly recorded first, taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties and without notice of the earlier transfer.

Trademarks

The United States is a 'first to use' jurisdiction and ownership of a trademark in the United States inures in the first party to use a trademark in commerce in connection with the relevant goods or services in the relevant geographic area. Although registration is not required, trademarks can be registered federally with the USPTO (if the mark is used in interstate commerce) or with state trademark registries. Federal trademark registration on the principal register provides various benefits, including evidence of validity and ownership of a mark, the ability to prevent others from using confusingly similar marks across the United States, the right to use the registered ® symbol, and statutory remedies for federal trademark infringement claims. Assignments of trademarks must be by written, duly executed instruments and any assignment of a trademark must include the goodwill of the business in which the mark is used. Moreover, intent-to-use trademark applications cannot be assigned before a statement or amendment to allege use has been filed with the USPTO, except to a successor to the applicant's business, or portion of the business to which the mark pertains, if that business is ongoing and existing. A trademark assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the requisite assignment information is recorded in the USPTO within three months after the date of the assignment or prior to the subsequent purchase.

Trade secrets

Under the Defend Trade Secrets Act and most state laws, the owner of a trade secret is the person or entity in whom or in which rightful legal or equitable title to, or licence in, the trade secret is reposed. Thus, the trade secret owner is the person or entity who knows the trade secret information and has taken reasonable measures to keep such information secret. Transfer of ownership of a trade secret is subject to state contract law since the assignment of a trade secret technically requires both transfer of the knowledge of the trade secret as well as obligations of the assignor not to use or disclose (or permit the use or disclosure of) the trade secret post-assignment.

Mask works

Unlike copyrights, registration of mask works in the Copyright Office is required for protection. Ownership of a mask work originally vests in the person who created the mask work, except that if a mask work is made within the scope of a person's employment, the owner of the mask work is the person's employer. Although US mask work rights are protected under federal law, legal title in mask works after the initial owner or owners is generally determined under applicable state law. The owner of exclusive rights in a mask work may transfer all of those rights by any written instrument signed by such owner or a duly authorised agent of the owner. A mask work transfer shall be void against a subsequent transfer that is made for a valuable consideration and without notice of the first transfer unless the first transfer is recorded in the Copyright Office within three months after the date on which it is executed, but in no case later than the day before the date of such subsequent transfer.

Domain names

Domain names are typically registered with accredited registrars or through registration services. Registrants typically provide the following information when registering a domain name: the domain name, registrant name, servers assigned to the domain name, and billing, administrative and technical contacts. Domain name registrars have different procedures for transferring ownership of domain names. Typically, domain name transfers involve terminating the existing registrant's contract with the registrar and creating a new contract between the new registrant and the registrar for the right to use the domain name being transferred. Parties may enter into agreements to memorialise the conditions of the domain name transfer.

Due diligence

4 What are the typical areas of due diligence undertaken in your jurisdiction with respect to technology and intellectual property assets in technology M&A transactions? How is due diligence different for mergers or share acquisitions as compared to carveouts or asset purchases?

Typical areas of intellectual property and technology due diligence undertaken in the United States with respect to technology M&A transactions include:

- identifying all registrations, issuances and applications for IP assets owned by the target and confirming the status, lien status, chain-of-title, expiration date (if applicable), scope of protection, and ownership thereof;
- identifying all other IP assets owned or used by the target and confirming the ownership thereof, any restrictions thereon, and the target's scope of rights therein;
- reviewing and analysing the target's agreements with past and present employees, contractors, and consultants with respect to the creation and ownership of IP assets and the use and disclosure of trade secrets and other confidential information;
- identifying and determining the scope of inbound and outbound grants of IP rights granted by or to the target;
- reviewing and analysing all other IP-related agreements (or IP provisions in agreements), including research and development agreements, consulting agreement, manufacturing, supply, and distribution agreements, settlement agreements, and IP licensing and assignment agreements;
- determining and analysing the target's process for IP clearance, protection, and enforcement and for protecting trade secrets and confidential information;
- determining and analysing any past, present, or threatened IP-related claims or disputes involving the target company, such as infringement actions, cease-and-desist letters, requests for IP-related indemnification, disputes with past and present employees or contractors, and claims for remuneration for the creation of intellectual property;
- reviewing and analysing the target's processes and procedures for developing software code, including identifying open source or copyleft code, reviewing source code scans, and identifying third-party access to code;
- requesting and analysing agreements and rights with respect to information technology (IT) rights, assets and equipment;
- reviewing the target's implementation of commercially reasonable IT programs for known material gaps and vulnerabilities to assess alignment with industry standards;
- reviewing the target's compliance with privacy and data protection laws, contractual obligations and company policies;
- vetting the extent and ramifications of any data privacy breaches or security incidents; and
- determining whether and what rights to use personal data will transfer to the buyer.

Although the due diligence process for mergers and share acquisitions and carveouts and asset purchases are similar, there are several key differences. Because carveouts and asset purchase transactions require the assignment and transfer of IP rights from the seller to the buyer, the buyer should confirm that all desired IP assets may be transferred (and are properly transferred) under applicable law. For example, intent-to-use trademark applications may only be assigned under certain circumstances and assignments of trade secrets should be coupled with covenants of the seller not to use or disclose such trade secrets post-closing. Moreover, the buyer should ensure that any shared rights in intellectual property are properly allocated or cross-licensed between the parties post-closing.

If source code or data is being transferred, the right of seller to transfer any third-party code (including open source) or third-party data (including personally identifiable information) should be properly vetted.

The buyer should review material IP and IT contracts to determine whether they include change of control provisions or anti-assignment provisions triggered by the contemplated transaction. In the United States, the rules governing transferability of IP licences where a contract is silent on transferability varies by applicable state law.

If a carveout or asset purchase transaction does not include all employees or IP assets relevant to the purchased business, the buyer should perform sufficient diligence to confirm that there is no 'key man' risk, whether the seller will need to give or receive any transition services, whether any IT systems will need to be migrated or separated, and whether the buyer will be able to use, maintain and exploit the purchased IP assets post-closing.

5 What types of public searches are customarily performed when conducting technology M&A due diligence? What other types of publicly available information can be collected or reviewed in the conduct of technology M&A due diligence?

Counsel for the buyer typically conducts:

- searches of publicly available databases (including the USPTO, the US Copyright Office, any relevant state trademark office databases and domain name registries) to identify and confirm the status, chain-of-title, expiration date (if applicable), scope of protection, and ownership of the registered intellectual property purportedly owned by the seller;
- trademark clearance and availability searches may be performed to identify potential third-party trademark rights and 'freedom to operate' searches may be performed to identify potentially problematic patents;
- Uniform Commercial Code (UCC) lien searches and searches of the USPTO and the US Copyright Office assignment databases to determine if there are any active and unreleased liens or security interests recorded against the seller's IP assets;
- searches of public US court dockets to determine whether the seller has been involved in any litigation related to its IP assets;
- searches of websites owned by the target to analyse privacy policies, terms of service and other publicly available information regarding the target; and
- if the target is a public company, searches for public filings of material contracts and other public disclosures, such as Annual Reports and filings with the Securities and Exchange Commission (eg, 10Ks, 10Qs, etc.).

6 What types of intellectual property are registrable, what types of intellectual property are not, and what due diligence is typically undertaken with respect to each?

In the United States:

- patents are registrable with the USPTO and issuance of a patent is required for patent protection;
- copyrights are registrable with the US Copyright Office but registration of a copyright is not required;
- trademarks are registrable with the USPTO and with state or local trademark offices but registration of a trademark is not required;
- trade secrets are not registrable;
- mask works are registrable with the US Copyright Office and registration is required within two years after the date on which the mask work is first commercially exploited; and
- domain names are registrable with domain name registrars and registration is required.

With respect to registerable intellectual property, the buyer should conduct the searches described in question 5. With respect to trade secrets, know-how, and other unregistered intellectual property, the buyers should confirm ownership thereof by the seller and with respect to trade secrets, that the seller has taken reasonable steps necessary to maintain the confidentiality thereof.

7 Can liens or security interests be granted on intellectual property or technology assets, and if so, how do acquirers conduct due diligence on them?

Liens and security interests can be granted on IP and technology assets in the US under article 9 of the UCC (as enacted by each state and the District of Columbia), which governs security interests in 'general intangibles' (including intellectual property) unless article 9 is pre-empted by US statute, regulation or treaty.

Because the Patent Act and Lanham (Trademark) Act do not expressly pre-empt article 9 of the UCC, US courts have generally held that security interests in US patents and patent applications and federal trademark registrations and applications (as well as other unregistered intellectual property) are perfected by the filing a UCC-1 financing statement with the applicable state where the owner of the IP asset is located and any release or termination of such security interest would be filed with such state. It is also prudent and considered a matter of good practice to file the security agreement (and any release or termination thereof) with the USPTO to ensure notice to subsequent good faith purchasers and mortgagees. In contrast, the Copyright Act pre-empts article 9 of the UCC. Accordingly, security interests in registered US copyrights (and applications therefor) are perfected by filing security agreements with the US Copyright Office. Any release or termination thereof should similarly be filed with the US Copyright Office. Turnaround time for UCC filings can vary by state and type of submission but can be instantaneous (for electronic filings) or may take up to 30 days (for paper forms). Turnaround time for the USPTO and US Copyright Office depends on processing lag time but a filing receipt is typically provided within a day for electronic filings.

Buyers typically conduct due diligence on liens or security interests by performing UCC lien searches as well as searches of the USPTO and the US Copyright Office databases to determine whether there are any active and unreleased liens or security interests recorded against the target's IP assets. If a financing is being paid off in connection with the contemplated transaction, the parties typically agree that any security interests securing such financing would be released at closing.

8 What due diligence is typically undertaken with respect to employee-created and contractor-created intellectual property and technology?

The due diligence typically undertaken with respect to employee-created and contractor-created intellectual property and technology in the context of US technology M&A transactions involves analysing employment or contractor-related agreements under applicable governing law to determine whether the target company or employee or contractor owns the employee or contractor-created intellectual property and whether such intellectual property is material to the target company. The buyer should ensure that the agreements include:

- a provision stating that all copyrightable work created by the employee or contractor is a 'work made for hire' under the Copyright Act;
- a present assignment of (and future agreement to assign) all work product and intellectual property that does not qualify as a work made for hire;
- a provision obligating the employee or contractor to cooperate to perform all acts and execute and deliver all documents necessary to effect and perfect all work product and IP ownership;
- confidentiality provisions governing the use and disclosure of trade secrets and other confidential information;
- if any trade secrets are disclosed to the employee or contractor, the whistle-blower notice required under the Defend Trade Secrets Act for agreements executed on or after 12 May 2016;
- sufficient licences under any background intellectual property owned by the employee or contractor that is used or embodied in the work product or intellectual property created by such employee or contractor; and
- representations and warranties that all work product and intellectual property is original and does not infringe, misappropriate or otherwise violate any third-party IP rights.

In addition, the laws of several states (including California) restrict the scope of employee inventions that may be subject to assignment and require that certain statutory notices be included in agreements purporting to assign employee inventions.

9 Are there any requirements to enable the transfer or assignment of licensed intellectual property and technology? Are exclusive and non-exclusive licences treated differently?

Under US law, the express language of the applicable IP licence agreement generally governs whether the licence is assignable. If the agreement is silent or ambiguous with respect to assignability, the analysis depends on governing law, the nature of the licensed intellectual property, whether the licence is exclusive or non-exclusive, whether the contemplated transaction constitutes an assignment under applicable law, and other considerations.

Typically, if an IP licence is silent or ambiguous with respect to assignability, then US courts have generally found that, absent countervailing circumstances that would result in material adverse consequences to the licensee (eg, the licence grant is coupled with various obligations of the licensor to provide assistance or other services or where the assignee is a competitor of the licensee), the licensor has the right to assign without the licensee's consent; and the licensee does not have the right to assign without the licensor's consent.

Non-exclusive licences that are silent regarding assignability have generally been found by US courts to be non-assignable by the licensee without the licensor's consent. However, courts are split on whether exclusive licences should be treated similarly. Although several courts have treated exclusive licences in the same manner as non-exclusive licences with respect to assignability, some courts have held that exclusive licensees should have rights commensurate to the owner of the intellectual property and therefore the right to assign without consent of the licensor because exclusive licences may be considered to be transfers of all rights (particularly with respect to copyrights).

10 What types of software due diligence is typically undertaken in your jurisdiction? Do targets customarily provide code scans for third-party or open source code?

Software due diligence typically involves:

- identifying who created the source code (ie, employees or contractors) and reviewing any agreements governing the development of such source code;
- determining whether and how the software is used, accessed, stored, licensed or distributed to third parties (including whether it is subject to any source code escrow agreements), including reviewing any agreements governing the foregoing;
- confirming the confidentiality measures undertaken to protect any proprietary code and unauthorised access thereto or disclosure thereof; and
- reviewing or vetting any open source code policies and procedures (including reviewing source code scans).

Depending on the materiality of the software code at issue, nature of the transaction, and target industry, targets may provide code scans in the course of due diligence for technology M&A transactions in the United States.

11 What are the additional areas of due diligence undertaken or unique legal considerations in your jurisdiction with respect to special or emerging technologies?

Artificial intelligence

Artificial intelligence (AI) algorithms typically 'learn' from broad and high-quality data sets, which may be subject to copyright protection. It is important to assess whether an AI system has the right to use, access or reproduce the copyrighted works within an input data set and whether any resulting technology could therefore be deemed to be an unauthorised 'derivative work'.

Because AI systems may be capable of producing more complex and innovative products and services, on the one hand, it is important to consider how inventorship and authorship will be determined where intellectual property results from an AI system. For example, US courts may decline to grant patent or copyright protection to inventions or works created by AI systems (rather than by humans). On the other hand, if a target uses an AI system that makes decisions resulting in damage or harm, it is unclear how liability would be allocated.

Additionally, with respect to privacy and data security, due diligence undertaken with respect to AI is typically in the area of secure development lifecycle of hardware and software, including analysing implementation of privacy and security by design and by default.

Internet of things

Internet of things (IoT) relates to connected devices that are capable of collecting and analysing massive amounts of data and inherently gives rise to legal concerns around consent, privacy, security and discrimination. It is important to consider whether the data collected by an IoT device is personal data, and if so, whether the persons about whom such data is collected have given sufficient consent to the collection and analysis thereof. Moreover, to the extent that such data includes health, financial or other sensitive information, it is important to understand what rights the relevant person has in such data and whether it is subject to security measures sufficient to prevent its unauthorised use and disclosure.

Autonomous driving or advanced driver-assisted systems

Autonomous driving or advanced driver-assisted systems (ADAS) may incorporate and rely upon AI and connected devices (ie, IoT) technology; therefore, such systems may be subject to the same unique legal considerations discussed above with respect to IoT and AI. Moreover, such systems incorporate numerous other types of technologies, such as global positioning systems (GPS), light detecting and ranging (LIDAR), telecommunications, data analytics and image processing. Accordingly, purchasers should conduct thorough due diligence to ensure that ADAS technology being acquired is not infringing or misappropriating third-party IP rights.

Purchase agreement

12 In technology M&A transactions, is it customary to include representations and warranties for intellectual property, technology, cybersecurity or data privacy?

Buyers of technology companies may require extensive IP representations and warranties, including:

- scheduling of all IP registrations and pending applications, and all material IP and IT contracts (typically included as part of the 'material contracts' representation);
- sole ownership of intellectual property purported to be owned by the target and ownership or the valid right to use all other intellectual property used in the target's business, in each case, free and clear of all encumbrances (other than permitted encumbrances);
- no infringement, misappropriation or other violation of third-party IP rights by the target (this representation may be qualified by knowledge), and of the target's IP rights by any third party (this representation is typically qualified by knowledge);
- validity, enforceability and subsistence of the target's intellectual property;
- no claims or actions asserted by or against the target alleging any infringement, misappropriation or other violation of IP rights, or challenging the ownership, use, validity or enforceability of the target's intellectual property;
- reasonable efforts to protect trade secrets and other confidential information;
- due execution of invention assignment and confidentiality agreements;
- sufficiency of IP assets;
- no adverse effect on IP rights arising from the consummation of the proposed transaction;
- no outstanding governmental orders affecting the target's intellectual property;
- no contribution of resources, facilities, funding or other matters by any governmental entity, university or similar public institution; and
- no unauthorised access to or disclosure of source code, compliance with all open source and other third-party code licences, and no problematic use of copyleft or viral code.

Standard IT, cybersecurity, and data privacy representations include:

- ownership and right to use all material IT assets;
- implementation of commercially reasonable information security programmes and reasonable efforts to protect the confidentiality, integrity and security of IT systems;
- compliance with privacy and data protection laws, contractual obligations and company policies;
- adequate third-party vendor privacy protections;
- continued ability to use personal data upon closing;

- sufficiency, good working order and good working condition of IT systems;
- no disabling codes, Trojan horses, worms, trap doors, back doors or other contaminants in the target's products or IT systems;
- implementation of reasonable disaster recovery and business continuity plans;
- no failure, security breach, material interruption or disruption, loss, or unauthorised access to or use of any IT systems or any business sensitive information or personal data; and
- no data breach notifications required or provided, and no data breach claims or inquiries made against the target.

13 What types of ancillary agreements are customary in a carveout or asset sale?

Ancillary agreements that are customary in a technology or IP-focused carveout or asset sale in the United States include the following:
- An asset sale is typically effected by means of a bill of sale and assignment and assumption agreement for the purchased assets, which generally transfers ownership in technology, products, equipment, other personal property, real property and agreements.
- To the extent that assignments of any IP registrations or applications may be effected, short-form IP assignments are typically executed for purposes of recording such assignments.
- Transitional trademark licences are typically executed if the seller will retain certain marks used by or in connection with the transferred business or assets and the buyer needs a period of time post-closing to wind down use of the seller's marks and transition to other marks.

Other post-closing licence agreements may be executed if one party acquires or retains intellectual property in which the other party will continue to have rights to use post-closing. The licence may take multiple forms, depending on how the transfer of intellectual property is structured. For example, instead of acquiring intellectual property outright, the buyer may take an exclusive licence from the seller (sometimes limited to a specific field of use). Where the buyer acquires the intellectual property outright, the seller may request a licence back from the buyer (for use other than in connection with the business being sold). In addition, if the purchased IP assets are transferred based on a 'used' or 'primarily used' standard, there may be post-closing cross-licences of intellectual property between the seller and buyer.

Transition services agreements are commonly entered into where the parties need time to transition functions (such as IT systems and back office functions) from seller to buyer.

14 What kinds of intellectual property or tech-related pre- or post-closing conditions or covenants do acquirers typically require?

Pre-closing conditions or covenants of the seller may include:
- interim operating covenants, such as:
  - prohibitions on granting any licences, covenants not to assert or other rights in intellectual property to a third party, and on abandoning any IP rights or allowing IP rights to lapse (with negotiated carveouts); and
  - prohibitions on entering into, modifying or terminating any IP- or IT-related agreement (with negotiated carveouts);
- requirements that the target obtain and provide:
  - third-party consents to change of control or assignment under material IP- or IT-related agreements with third parties;
  - amendments to material IP or IT contracts as may be required to successfully integrate the target into buyer's business;
  - settlements or releases of outstanding adverse IP claims or actions; and
  - termination of certain IP contracts as may be requested by buyer (in merger and stock purchase transactions);
- open source remediation (updating or replacing software to ensure compliance with open source licences and to eliminate potential inadvertent grants of open source licences to third parties); and
- obtaining invention and IP assignments and confidentiality agreements from former and current employees and contractors (if such assignments were not previously obtained, if existing assignments were deficient or to correct chain-of-title issues).

Update and trends

As they compete with private equity funds in auctions of technology companies, strategic technology buyers are increasingly being asked to purchase representations and warranties insurance and forego the ability to sue sellers for (most of the) damages for breach of representations. Representations and warranties insurance has long been a common feature in private equity M&A. In a representations and warranties insurance deal, sellers may have no liability for breaches of representations and warranties, or may retain a small amount of liability (usually no more than 1 per cent of the purchase price); and for any losses in excess of those amounts, the buyer must look solely to the insurance policy for recovery.

This structure alters the trajectory of negotiations in a technology acquisition. Instead of pushing for higher liability caps for breaches of IP representations, the buyer simply purchases its desired amount of coverage from the insurer. To form the basis of claims under the insurance policy, the buyer will insist on fulsome IP and other representations. Sellers are more likely to accept buyers' IP representations as is, because sellers will either have no liability or will retain only a small amount of liability, for breach of representations and warranties.

Post-closing conditions or covenants of the seller may include:
- assisting the buyer with effecting and recording short-form IP assignments with the USPTO, US Copyright Office, relevant domain name registrars and any state IP offices;
- agreeing to 'wrong pockets' obligations (eg, whereby each party agrees to promptly and without any further consideration transfer to the other party any assets that were inadvertently improperly allocated to such party);
- granting post-closing transitional trademark licence agreements for any retained trademarks and licence (or cross-licence) agreements for any shared intellectual property; and
- providing transition services to help transition the business to the buyer's IT systems.

15 Are intellectual property representations and warranties typically subject to longer survival periods than other representations and warranties?

Acquirers of tech businesses may request the ability to sue for breach of IP representations for an extended period following closing (eg, three to six years). While there is no statute of limitations for filing a patent infringement suit in the United States, a six-year survival period would correspond to the time period for recovering monetary damages for patent infringement. Copyright infringement suits must typically be filed within three years after the infringement claim accrues. Federal trademark law does not specify a statute of limitations for filing trademark infringement suits so the time limit varies by state. The Defend Trade Secrets Act includes a three-year statute of limitations but state laws may vary. Ultimately, the survival period for IP representations depends on negotiations between the parties.

To provide some context, for general or non-fundamental representations (eg, financial statements), the survival period may be much shorter (eg, one or two years). For tax matters, the survival period may expire 30 to 90 days following the expiration of applicable statutes of limitations. For fundamental representations (eg, title to assets in an asset deal, title to shares in a share sale or due authorisation), buyers will generally request that the survival period last indefinitely, or for the maximum period available under applicable law.

16 Are liabilities for breach of intellectual property representations and warranties typically subject to a cap that is higher than the liability cap for breach of other representations and warranties?

In a technology M&A transaction, buyers will often request a liability cap for the breach of IP representations that exceeds the liability cap for non-fundamental representations (in a non-technology M&A transaction, this is less common). However, this may be the subject of heavy negotiations between the parties.

17 Are liabilities for breach of intellectual property representations subject to, or carved out from, de minimis thresholds, baskets, or deductibles or other limitations on recovery?

This is also the subject of negotiation. In some cases, the cap on liabilities for breach of IP representations may be subject to the same de minimis thresholds, baskets, deductibles or other limitations on recovery applicable to non-fundamental representations, but this point will be considered together with the other negotiated points described above.

18 Does the definitive agreement customarily include specific indemnities related to intellectual property, data security or privacy matters?

The parties may include specific indemnities for matters that were disclosed in due diligence (eg, potential claims by third parties related to patent infringement or trade secret misappropriation). Specific indemnities are typically not subject to de minimis thresholds, baskets or deductibles, but may be subject to a negotiated liability cap (eg, the purchase price or some other agreed amount).

In an asset purchase agreement, liability for transferred or retained liabilities is typically not subject to limitations on recovery.

19 As a closing condition, are intellectual property representations and warranties required to be true in all respects, in all material respects, or except as would not cause a material adverse effect?

Buyers and sellers will negotiate the extent to which IP representations are brought down subject to materiality qualifiers at closing.

In the most buyer-friendly formulation, a buyer may require that IP representations be true and correct in all respects as of the closing (without materiality qualifiers). Sellers may view this as reducing certainty of closing, in particular where there are more than a few days between signing and closing.

An alternative formulation is for a limited subset of the IP representations and warranties (such as sufficiency of IP assets or non-infringement) to be brought down subject to a materiality qualifier, while the other IP representations are brought down subject to a no material adverse effect qualifier.

In the most seller-friendly formulation, all of the IP representations may be brought down at closing subject to a 'no material adverse effect' qualifier. 'Material adverse effect' is an exceedingly difficult threshold to meet and effectively requires the buyer to close even if material breaches are discovered between signing and closing (as they do not meet the 'material adverse effect' threshold).

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