As IP practitioners, we may be asked to assist our colleagues in navigating complex IP issues related to corporate transactions. The considerations summarized below are issues that we may be generally aware of but have never considered in connection with a corporate transaction.

In an asset sale, corporate attorneys need to analyze the assignability of a seller’s contracts, some of which may be IP licenses. If the contracts contain restrictions on assignment, the consent of the non-assigning party may be required. The “default” rules concerning assignment of IP licenses differ from the treatment of many other contracts. Unlike most other contracts, if an IP license is silent on assignability by the licensee, a majority of courts have held that a licensee’s rights are not assignable without the licensor’s consent.

In every corporate transaction, a buyer must consider whether a target company (in a stock sale or merger) or a seller (in an asset sale) actually owns the IP it purports to own. Unlike with tangible assets, this is a complicated issue with respect to IP. A combination of in-depth due diligence and strong representations and warranties in the contract will comfort the buyer on this issue. IP specialists may be asked to assist with both. The due diligence process depends in part on the type of IP at issue. If any IP has been created by independent contractors, it is crucial to identify and review the applicable contracts to ensure that the independent contractor properly assigned all rights to the seller or the target company. It is equally important to confirm that all IP created by the seller’s or target company’s founders has been properly assigned.

Proprietary software products present unique challenges in corporate transactions. Buyers need to understand the development process of the software and whether or not open-source software elements were used. As part of the diligence process, buyers may consider conducting a third-party audit of the seller’s or target company’s source code. However, depending on the size of the deal, the cost of doing this may be prohibitive. If an audit is not conducted, the buyer should understand all open-source software used in the business and review the corresponding licenses to understand what obligations may be imposed by such licenses.

Corporate transactions may be structured as a “carve-out,” which means a subsidiary or a business division is being sold — rather than an entire business enterprise. In those cases, it can be difficult to untangle the use of IP among the parties and ensure that the rights are properly conveyed. There may be a need for transition services between the target company/division and the selling entity. These services may flow in either direction depending on whether the IP at issue is conveyed or retained. These licenses and transition services arrangements are often the subject of intense negotiation.

As an IP specialist assisting in a corporate transaction, it is critical to understand the structure of the transaction and the totality of the situation to properly identify and address IP issues.

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