

Getting Your Intellectual Property in Order Prior to an Investment or Sale

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If your company is considering a sale or investment in the near or medium term, there are a number of actions you can take now to make the intellectual property (IP) diligence conducted by the buyer or investor go smoothly. Failure to take the below actions may unnecessarily extend the diligence process, causing multiple parties to expend time and legal resources to identify and resolve the issues. While this is not an exhaustive list of every action companies should take, paying attention to the following as your company develops IP will save you time and resources in the long run.

1. **Chain of Title for Registered IP:** Make sure that the company is the owner of record of all registered or issued IP (in the U.S., this includes patents, trademarks, copyrights and domain names), as well as social media pages and handles, and that such IP is not still in the name of a predecessor entity or an employee who may have registered it on behalf of the company in his or her own name. Similarly, confirm that none of the registered or issued IP is subject to any security interests from prior financings that have subsequently been paid off. If there are outstanding liens, a security interest release on the IP should be executed by the prior lender and filed with the relevant government authority.
2. **Employee Invention Assignment Agreements:** Ensure that all former and current employees have signed an agreement confirming the company's ownership in all IP developed by the employee. Keep a list of any employees that left the company without signing such an agreement and note whether those employees developed any IP.
3. **Consultant-Developed Intellectual Property:** In most circumstances, the work a consultant performs is not owned by the company absent a written agreement on point. Without an agreement to the contrary, the company will at best have a nonexclusive license to the IP created by the consultant. Identify any consultants that have created work product for your company (including any logos, websites or other branding or marketing content) without signing an agreement confirming the company's ownership and determine steps required to correct any gaps.
4. **Use of IP Within Enterprise:** Understand what IP is used in the different divisions and areas of the organization, and whether such IP is owned or licensed. If IP is held by one entity within the

organization and used by its affiliates, the entity that owns the IP should grant the applicable affiliates the right to use the IP pursuant to a written, transferable intercompany license. This is especially important if the upcoming sale involves a division or line of business (rather than the entire company).

5. **Protection of Trade Secrets:** If your material intellectual property includes trade secrets, take note of the specific contractual, physical and technological safeguards you have in place to protect them. Also, note any known breaches of these safeguards and the actions you took in response.
6. **License Analysis:** Review your license agreements (and contracts generally) to identify any termination rights in the event of a change of control or sale of your company, or requiring your company to obtain the counterparty's consent to assign the agreement. When entering into new agreements, try to negotiate assignment provisions that permit assignment without consent in the context of a sale or change of control.
7. **Development of Software Code and Open Source Software:** If you are a software or technology company with proprietary software, including a SaaS offering, keep careful track of how each version of your code was developed (*i.e.*, whether it was developed by employees or consultants, or acquired or licensed from another entity, and including any open source software incorporated into your code). If there is open source code, note the name of the open source product, the licensor, the version and date downloaded, the license terms applicable to that version and details regarding your use (including whether it was modified and whether that code is distributed or hosted as part of your business operations). If you have lost track of this issue and need to catch up, you can run an internal audit or hire a vendor to perform an audit of your code for you.
8. **Privacy Policy:** If your company's website or app collects personally identifiable information, you should have a privacy policy detailing the company's policies regarding the collection, maintenance and use of such information. Note that the collection may be through a seemingly innocuous method, such as a visitor to the website submitting his or her email through a "Contact Us" function. Keep track of each version as your privacy policy evolves, noting the dates that each version was in effect, and the information collected under each version of the policy if material changes have been made. Periodically have your counsel review the privacy policy to make sure it is compliant with the latest regulations and legislation.
9. **Incoming IP Disputes:** From time to time, you may receive "cease and desist" letters or other communications alleging that your company is infringing the IP rights of a third party. Keep careful track of the communications received and any responses to them. Your day-to-day IP counsel can advise you as to the best strategy for responding to any correspondence you receive.
10. **Enforcing Your Own Intellectual Property:** Whether or not to

pursue a third party that may be infringing your intellectual property is a business decision based on, among other things, the severity of the alleged infringement, the identity of the potential infringer, and strategic considerations. Regardless of whether you pursue a third party, it is important to formally keep track of potential infringement of which you become aware, even if you do not pursue the third party. In your records, include notes or correspondence regarding why you determined not to pursue the potential infringer. If you do pursue the third party, keep track of any responses received and other actions taken.

While this is a partial list and some of these actions may not be applicable to your company, the above suggestions are the most common ones that can generate cost savings when addressed ahead of time. Focusing on these steps as your company develops will save time and resources once you are ready for an investor or buyer to conduct intellectual property diligence on the company.

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