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INTELLECTUAL PROPERTY: ASSET PURCHASES*

By Daniel Glazer**

This article highlights key intellectual property (IP) considerations in asset purchase transactions involving all or substantially all of the seller’s assets or a division or line of business. It discusses legal due diligence of IP assets that are included in the purchased assets and drafting and negotiating IP aspects of asset purchase agreements (including representations and warranties) and ancillary agreements. It also addresses certain information technology (IT) considerations.

In most asset purchase transactions involving all or substantially all of the seller’s assets or a division or line of business, legal issues involving intellectual property (IP) are handled by IP counsel separately, but concurrently, with the negotiation of other transaction issues.

This article discusses:

- Due diligence of the IP assets and liabilities to be transferred, including issues commonly identified during the buyer’s due diligence review.
- Key aspects of drafting and negotiating the IP aspects of asset purchase agreements, including representations and warranties, covenants, and ancillary agreements.

It also addresses certain information technology (IT) aspects, including, to the extent included in the purchased assets, the seller’s proprietary and licensed software, and its software licenses and IT agreements with other parties.

This article focuses on asset purchases where IP rights are transferred with non-IP assets. The sale of discrete IP or IT assets (such as a patent or copyright portfolio) involves more focused negotiation and documents dealing with the condition and transfer of the specified assets.

IP issues should not be overlooked in any asset purchase transaction involving both IP and non-IP assets. However, the analysis of IP and IT aspects in a specific transaction depends on many factors, such as whether the purchased assets and liabilities include:

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A diversified IP portfolio or only certain key IP assets.

The assets and liabilities of a mature or a start-up company.

All or substantially all of the seller’s assets or a discrete division or product line.

IP counsel should also account for whether the seller is a large entity that will continue as an active company after the transaction or whether only a shell will remain.

IP counsel involved in an asset purchase involving all or substantially all of the seller’s assets or an entire division or line of business generally have five primary areas of responsibility:

- Understanding the implications of the asset purchase transaction structure for the purchased IP assets and liabilities (see Transaction Structure).
- Conducting IP due diligence, including identifying and evaluating relevant IP assets and liabilities, and preparing an analysis of the results (see IP Due Diligence: Areas of Review and Analysis).
- Drafting and negotiating the IP- and IT-related provisions of the purchase agreement, including representations and warranties and covenants (see IP/IT Provisions in the Asset Purchase Agreement).
- Drafting and negotiating any ancillary IP and IT agreements, including IP assignments, licenses and transition services agreements (see Ancillary IP and IT Agreements).
- Coordinating any required post-closing IP matters, such as filing IP assignment documents with IP registries in applicable jurisdictions (see Post-closing Issues).

For purposes of this article, the party or parties transferring assets under the asset purchase agreement are referred to generally as the seller. The buyer should ensure that all of the record owners of the IP-related assets being purchased are party to the asset purchase agreement and evaluate the assets held by each relevant party.

This article focuses primarily on IP and IT issues under US law. If the seller’s foreign IP assets and liabilities are material to the transaction, the buyer should consider retaining local IP counsel in the relevant foreign jurisdiction.

I. TRANSACTION STRUCTURE

Understanding the transaction structure is necessary for evaluating the transaction’s potential impact on IP assets included in the purchased assets, especially IP licenses and other IP-related agreements. In particular, IP due diligence and the negotiation of
IP issues must take into account whether the purchased assets and liabilities encompass the assets and liabilities relating to a product line, subsidiary, unincorporated division or other discrete portion of the seller’s larger business (see Carve-out Transactions).

In an asset purchase transaction, the buyer only acquires and assumes the assets and liabilities that the parties identify and the buyer agrees to acquire and assume in the asset purchase agreement, subject to any liabilities imposed on the buyer as a matter of law. In particular, the buyer takes ownership of all of the seller’s IP rights included in the purchased assets and assumes responsibility for all IP-related liabilities included in the purchased liabilities. In this way, asset purchase transactions differ from stock purchase and merger transactions.¹

The buyer’s objective in an asset purchase transaction is to ensure that it receives ownership of or the right to continue using all IP rights included in the purchased assets and any other IP rights necessary to use the purchased assets. It must therefore consider:

- Any potential loss or impairment of the purchased IP rights, including licensed IP rights, caused by the transaction itself (see IP and IT Agreements).
- In a carve-out transaction, the buyer’s right to use IP retained by the seller or its affiliates.

Because asset purchase transactions typically are private with no public filings available concerning the purchased business, the buyer must rely heavily on the due diligence analysis and thorough representations and warranties to:

- Gather information about the purchased IP assets and liabilities.
- Reduce the risk of unexpected post-closing IP-related claims and liabilities.

The IP representations and warranties often survive closing for a specified period, leaving the seller with ongoing indemnification obligations if any of those representations or warranties turns out to be false. However, the seller’s indemnification obligations are typically limited, for example, by:

- Thresholds, baskets or deductibles, which specify an aggregate amount of losses before indemnification is available.
- Caps, which limit the buyer’s maximum aggregate recovery to a stated dollar amount.

A. Carve-out Transactions

A carve-out transaction is the sale of the assets and liabilities comprising or relating to a discrete business, such as a product line, subsidiary or unincorporated division. The carved-out business often shares certain IP assets and services, including IT services, with the seller and its affiliates. In this case, due diligence is needed to identify the assets transferring to the buyer and those remaining with the seller. The parties must also determine whether the seller will license IP assets or provide IP or IT services to the buyer after closing for either a transitional period or on a long-term basis (see License Agreements and Transition Services Agreement).

II. IP DUE DILIGENCE: AREAS OF REVIEW AND ANALYSIS

The buyer’s IP legal due diligence serves many purposes, including:

• Validating the business reasons for the proposed transaction, in particular, if certain IP assets are material.

• Identifying IP-related liabilities that could affect the buyer’s valuation of the purchased assets.

• Identifying IP-related obstacles to completing the transaction and allowing the parties to resolve or mitigate these issues before closing.

IP legal due diligence generally includes a review and analysis of these areas:

• **Owned IP.** This confirms that the seller owns and has the right to assign the IP it claims to own and that the owned IP included in the purchased assets is not impaired by the transaction (see Registered Owned IP and Unregistered Owned IP). It also includes a review of any licenses of the owned IP included in the purchased assets to other parties (see IP and IT Agreements).

• **Third-party IP.** This includes a review of IP licenses from third parties that are included in the purchased assets (see IP and IT Agreements).

• **IP disputes and office actions.** This includes a review of actual or potential IP-related disputes and office actions for which the buyer is assuming responsibility (see IP Disputes and Office Actions).

• **IT assets.** This includes a review of proprietary and licensed software and other IT assets included in the purchased assets (see Information Technology Assets).
For a Checklist of common IP due diligence issues, see IP Due Diligence Issues in M&A Transactions Checklist.²

Before beginning its due diligence, the buyer often submits a due diligence request to the seller consisting of a list of questions and requests for documents organized by topic. The buyer’s IP counsel should review this request list to ensure it appropriately covers IP and IT.

A. Registered Owned IP

The buyer should ask the seller to provide schedules identifying all federal, state and foreign IP registrations and applications owned or held for use by the seller and included in the purchased assets. The scope of registered IP included in the purchased assets may cover:

- Patents, patent applications and statutory invention registrations.
- Trademark and service mark applications and registrations.
- Copyright applications and registrations.
- Foreign design registrations.
- Mask work registrations.
- Internet domain name registrations, which are not technically IP rights but which are often addressed alongside IP registrations and applications.

The schedules provided as part of the buyer’s due diligence often form the starting point for preparing disclosure schedules for the purchase agreement (see IP Schedules).

1. Common Registered IP Issues

By conducting searches of publicly available US and foreign IP databases (for example, through the use of commercial databases or, in the US, on the websites of the US Patent and Trademark Office (USPTO) and US Copyright Office and reviewing prosecution files and similar materials provided by the seller, the buyer may identify these common issues relating to specific IP applications or registrations:

- **Abandoned or expired items.** The seller may have abandoned applications or registrations or let them expire by failing to make required filings or pay required maintenance or renewal fees. The buyer should confirm whether the items were abandoned intentionally or

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inadvertently. If the buyer believes an abandoned or expired item is material, the buyer should consider that:

- in some cases, it may be possible for the seller or the buyer to revive the application or registration; and
- without revival, damages may still be recoverable for pre-expiration or pre-abandonment infringement.

- **Pending applications and registrations set to expire or for which renewal, maintenance or other fees are due.** The parties should discuss any material upcoming prosecution decisions on pending applications for registration and existing registrations. They should also agree on the party responsible for prosecution and maintenance after closing. Often, the buyer assumes responsibility for handling the IP portfolio immediately after closing.

- **Gaps or other inconsistencies in the public record chain of title.** The seller or one of its affiliates that is a party to the asset purchase agreement should be identified as the current record owner in public IP databases of each item of registered IP. The buyer should require that the seller fix any chain-of-title discrepancies before closing. If the record owner of an item is an unrelated third party, the seller’s predecessor or a former name of the seller, this may reflect:
  - a third party’s superior ownership interest; or
  - a failure to record name changes or assignments with appropriate IP registries.

- **Unreleased security interests.** Security interests may be recorded against specific items of IP, including US registered IP in the USPTO and US Copyright Office. Unreleased security interests could reflect either:
  - existing liens on the IP; or
  - the seller’s failure to record a security interest release for a security interest that no longer exists with the appropriate IP registries, including the USPTO or Copyright Office, as appropriate.

For trademarks and patents, the buyer should also review UCC-1 filings in relevant states. While security interests in trademarks and patents are typically recorded in the USPTO, they are perfected under the Uniform Commercial Code (UCC), not through USPTO recordation.

- **IP held by the seller or its affiliates.** In a carve-out transaction, the seller may exclude from the purchased assets certain IP used by the seller or its affiliates primarily in their businesses other than the business that comprises
the purchased assets. The buyer may seek license agreements covering this IP (see License Agreements). Similarly, the seller or its affiliates may require licenses to use IP included in the purchased assets in their other businesses. The buyer should also pay attention to:

- material changes in the seller’s IP filing strategies regarding the purchased assets; and
- the seller’s failure to register or apply for registrations in key foreign jurisdictions in which the purchased assets are held or where the purchased business operates, or that would cover current or future products or services provided by the purchased business.

These changes or failures may simply reflect an immaterial change in business strategy. However, they could also indicate potential conflicts with third-party IP and require further investigation, such as a review of trademark clearance or patent freedom-to-operate searches that may have influenced the seller’s filing decisions.

2. Patents and Patent Applications

The following are common issues concerning issued patents and patent applications that are included in the purchased assets:

- Unpublished patent applications. Because US patent applications are generally not published for at least 18 months after filing, they cannot be searched for in online public databases during that period. Therefore, the buyer should:
  - review the seller’s internal patent filing records; and
  - consult with the seller’s patent counsel to determine the scope and filing status of unpublished US patent applications included in the purchased assets.

- Employee patent invention assignments. If a current or former employee or contractor of the seller is the record owner of a patent or an outstanding patent application purportedly owned by the seller and included in the purchased assets, the buyer should confirm that the:
  - employee or contractor has assigned his ownership interest in the patent or patent application to the seller; and
  - the assignment is properly recorded in the appropriate IP registry.
3. Trademark Registrations and Applications

Trademark applications and registrations that are purchased assets may raise issues relating to:

- **Intent-to-use trademark applications.** US intent-to-use (ITU) trademark applications cannot be assigned before submitting evidence to the USPTO that the applicant is using the subject mark in US commerce, unless the assignment:
  - is made to a successor of the applicant’s business; or
  - occurs as part of a transfer of the entire business to which the mark pertains, if the business is ongoing and existing.

The assignment of an ITU trademark application as part of the asset purchase transaction may violate this prohibition unless the purchased assets comprise the business to which the transferred mark pertains. The impermissible transfer of an ITU trademark application makes any ensuing registration susceptible to cancellation if challenged by a third party.

If necessary to avoid an improper assignment, at the closing the seller can grant the buyer an exclusive license to use the applied-for mark. The buyer’s eventual use of the mark inures to the seller’s benefit as the licensor. The seller then can file a Statement of Use with the USPTO and assign the application to the buyer.

The buyer also should seek to identify any applications or issued registrations included in the purchased assets that previously were assigned in violation of this restriction.

- **Non-use.** The trademark registrations included in the purchased assets may be vulnerable to a third-party cancellation action for abandonment if the seller has stopped actively using the marks. Under the Lanham Act, a mark, whether registered or unregistered, is deemed abandoned when its owner has discontinued use with an intent not to resume use. There is a statutory presumption of abandonment after three consecutive years of non-use. Use of a trademark in this context means bona fide use in the ordinary course of trade.

- **Appropriate use.** The buyer should review the seller’s marketing and promotional materials, websites and social media web pages to identify and ensure the appropriate use of the registered trademarks included in the purchased
assets. Improper trademark use may result in weakening or loss of trademark rights.\textsuperscript{3}

- **International trademark registrations.** International trademark registrations (and national extensions) issued by the World Intellectual Property Organization (WIPO) can only be owned by and assigned to entities based in countries that are members of the Madrid Protocol or the Madrid Agreement. For example, a US company:
  - cannot assign an international trademark registration to a Canadian company. While the US is a party to the Madrid Protocol but not the Madrid Agreement, Canada is not a party to either; and
  - may receive the assignment of an international trademark registration that has been extended to France (a party to both the Madrid Agreement and the Madrid Protocol), but not an extension to Algeria (a party to the Madrid Agreement only).

4. **Copyright Registrations and Applications**

Common issues relating to copyright registrations and applications that are included in the purchased assets are:

- **Failure to register.** For copyrighted works created in the US, registration is required to sue for infringement under the Copyright Act and receive certain other benefits. The buyer should identify the material unregistered copyrights included in the purchased assets and consider applying for registrations (or requiring the seller to apply before closing) if a legitimate risk of third-party infringement exists.

- **Reversion rights.** Under US copyright law, an author of a copyrighted work has the irrevocable right to terminate any assignment or license of the copyright in the work generally within a five-year window beginning 35 years after the grant (or, for pre-1978 grants, beginning 56 years from the date of copyright). However, this termination right does not apply to works made for hire. The buyer should identify any material works that have been assigned or licensed to the seller or its predecessor and may be subject to a termination notice from the original author. This risk is particularly significant if the purchased assets are relevant to the commercialization of music, film or similar entertainment properties.

- **Chain of title.** The buyer should confirm that all works that relate to the copyright registrations included in the

\textsuperscript{3} For more information on proper trademark use, see Practice Note, Trademark Use and Protection Guidelines (Internal Distribution), http://us.practicallaw.com/1-506-5439.
5. Domain Name Registrations

The following are frequent issues concerning domain name registrations that are included in the purchased assets:

- **Employees or contractors listed as the owner in the applicable domain name registry's records.** A present or former employee or contractor of the seller is often identified as the record owner of a domain name registration purportedly owned by the seller. The buyer should ensure that the domain name registrations included in the purchased assets are transferred to the seller. Uncooperative employees or contractors can demand large sums to transfer the domain names if they believe they have leverage to hold up the transaction.

- **Jurisdiction-specific top-level domains.** Registrations with certain jurisdiction-specific top-level domains can only be owned by persons or entities based in the applicable jurisdiction, including the European Union (.eu), Canada (.ca), Germany (.de) and the US (.us). In these cases, a local agent used by the seller to register the domain name often appears as the record owner. The buyer should ensure that it or one of its affiliates that are party to the asset purchase agreement qualify as a permitted owner of each jurisdiction-specific top-level domain included in the purchased assets.

If necessary, the buyer and seller may agree that the seller temporarily retain ownership of certain jurisdiction-specific top-level domains for a brief period after the closing so that the buyer can identify or create an appropriate entity to hold those domains.

**B. Unregistered Owned IP**

The buyer should ask the seller to provide schedules or a summary of the unregistered (common law) IP included in the purchased assets. The unregistered IP portfolio may include some or all of the following:

- Trade secrets, including unpatented inventions.
- Unregistered copyrights, including software source code (see also Proprietary Software).
- Unregistered trademarks and service marks.

To the extent possible, the buyer should confirm the ownership status of key unregistered IP the seller claims is owned by the seller and is included in the purchased assets.
As with registered IP (see Common Registered IP Issues), in a carve-out transaction, the buyer should ensure that any unregistered IP that is primarily used by the business that comprises the purchased assets but owned by the seller or another seller affiliate is assigned or licensed to the buyer for use in the purchased business (see License Agreements and IP Assignments).

1. Trade Secrets

Common issues concerning trade secrets that are included in the purchased assets involve:

- **Confidentiality policies and non-disclosure agreements.** The buyer should request copies of the seller’s written confidentiality policies and non-disclosure agreements applicable to trade secrets and other confidential information included in the purchased assets. The seller’s failure to take appropriate confidentiality measures can threaten the proprietary status of its trade secrets or result in liability to third parties for not protecting their confidential information. In addition, the buyer should ensure that:
  - any confidentiality obligations in the seller’s non-disclosure agreements covering purchased trade secrets are perpetual; and
  - the duration of confidentiality obligations for non-trade-secret information is appropriate. Some states do not enforce perpetual confidentiality obligations in non-disclosure agreements for non-trade-secret information.

- **IP and invention assignment agreements.** The buyer should ensure that the seller’s IP and invention assignment agreements included in or applicable to the purchased assets adequately cover trade secrets (see IP and Invention Assignment Agreements).

2. Unregistered Copyrights

The buyer should confirm that the seller’s IP or invention assignment agreements included in or applicable to the purchased assets include work made for hire language. Work made for hire only applies to copyrights and not other kinds of IP. To qualify as a work made for hire, a copyrightable work must be created by either:

- An employee within the scope of his employment.
- A non-employee falling under one of nine specific types of commissioned works set out in the Copyright Act, with the parties agreeing in writing that the subject work is a work made for hire (17 U.S.C. § 101). Notably, software generally
does not qualify as a work made for hire when created by a non-employee, and ownership rights must be expressly assigned to the commissioning party.

3. Unregistered Trademarks

Similar to registered trademarks (see Trademark Registrations and Applications), the buyer should ensure that the unregistered trademarks included in the purchased assets, particularly those that are or may become valuable, are:

- Not vulnerable to an assertion of abandonment for non-use.
- Being used appropriately on all product packaging, marketing and promotional materials, websites and social media.

C. Other IP Ownership Issues

The buyer should consider possible restrictions on its use of the following IP included in the purchased assets:

- **Jointly-owned IP.** The rules relating to joint IP ownership vary by type of IP and by jurisdiction, but may impair the buyer’s ability to fully exploit its IP. For example, under US law:
  o each joint copyright owner may license its undivided interest in the entire copyright without the consent of other joint owner(s), but must account for licensing royalties received and must not destroy the value of the copyrighted work; and
  o each joint patent owner may license its interest without the consent of other joint owner(s), but has no duty to account for licensing royalties to its co-owner(s).

- **IP developed using government, university or military resources, or as part of a standards-setting organization or patent pool.** These arrangements often restrict the transfer of IP or require licensing, joint ownership or other mandated sharing of IP with third parties.

D. IP and IT Agreements

As part of its due diligence requests, the buyer should ask the seller to provide complete and executed copies of all IP licenses and other IP and IT agreements included in the purchased assets and to which the seller or a seller affiliate that is party to the asset purchase agreement is a party.

Depending on the transaction, these may include:

- Research and development agreements.
IP and invention assignment agreements.
Trademark coexistence agreements.
Disaster recovery agreements.
Outsourcing agreements.
Sponsorship and marketing agreements.
Settlement agreements.

These agreements can raise a range of IP-related issues that could affect the valuation or closing of the contemplated transaction.

1. Restrictions on Assignment or Change of Control

The buyer should review the licenses and other IP and IT agreements included in the purchased assets to determine whether they prohibit or restrict:

- The seller’s assignment of the agreement.
- Changes of control of the seller.

If the transaction violates an assignment or change-of-control provision or triggers a termination right by the other party, the licensor or vendor’s consent may need to be obtained before closing to avoid a breach of the agreement or termination by the counterparty.

An asset purchase transaction generally violates a non-assignment provision unless the provision specifically permits certain assignments and the contemplated asset purchase transaction qualifies as one of those permitted assignments. For example, an agreement may expressly permit assignment with the sale of all or substantially all of the contracting party’s assets.

The buyer may discover that certain licenses included in the purchased assets are silent on the issue of the seller’s assignment. The majority of courts have found that when a license is silent:

- Non-exclusive IP licenses may not be assigned by the licensee without the licensor’s consent.
- Exclusive IP licenses are assignable by the licensee without the licensor’s consent.
- A licensor may assign an IP license without the licensee’s consent.

In the event of a change-of-control restriction, the buyer must determine whether the transaction falls within the scope of transactions described in the relevant change-of-control provision. For example, a sale of all or substantially all of a party’s assets often triggers a change-of-control provision.
2. Trademark Agreement Issues

The buyer should consider the following issues relating to trademark agreements included in the purchased assets:

- **Trademark assignment agreements.** A trademark assignment must include the goodwill associated with the assigned marks or may be deemed an invalid assignment in gross that can invalidate the trademark.\(^4\)

- **Trademark license agreements.** Trademark license agreements should include quality control provisions because the seller’s failure to exercise sufficient quality control over its licensees’ use of marks included in the purchased assets can result in a naked license and the abandonment of those marks.\(^5\)

- **Trademark coexistence agreements.** A trademark coexistence agreement may restrict the use and registration of a trademark, for example, by limiting the trademark to certain goods or services or requiring the trademark to appear in a specified manner.\(^6\)

3. IP and Invention Assignment Agreements

Each of the seller’s IP and invention assignment agreements included in or relating to the purchased assets should include:

- A present assignment of rights, rather than a promise to assign at a future time.\(^7\)

- A broad assignment to the seller of all relevant forms of IP.

4. Other Common IP and IT Agreement Issues

Other matters to consider in the seller’s IP and IT agreements included in the purchased assets relate to:

- **Enterprise or group license agreements.** In a carve-out transaction, the purchased business’s rights to use third-party IP, including software, may flow from an enterprise or group license agreement that the seller retains after closing. The buyer should confirm whether the license

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\(^4\) For a sample trademark assignment agreement, see Trademark Assignment Agreement (Long-form), http://us.practicallaw.com/7-503-9763.


agreement includes a divestiture provision, permitting the buyer to remain licensed to use the IP or software in the purchased business for a period of time after closing, even though the buyer is not the seller’s affiliate. Alternatively, the buyer may need to enter into its own agreement with the licensor or obtain access to and use of the IP or software from the seller for an interim period after closing (see Transition Services Agreement).

- **Adverse impact on buyer’s IP.** The purchased assets may include licenses containing obligations that apply broadly to the buyer or its affiliates. For example, an agreement may define the IP that the seller licenses to a third party as “all IP owned by the licensor or any of its affiliates.” After closing, the buyer’s and its affiliates’ own IP (not just the purchased IP) likely would be subject to this license grant.

- **Termination rights.** The purchased assets may include licenses in which the licensor can terminate the seller’s or its assignee’s rights to use the licensed IP at any time without cause.

- **Exclusive licenses.** The seller may have granted an exclusive license of IP included in the purchased assets or agreed to other restrictions on the use of that IP that would prohibit the buyer’s planned use or ability to expand its business.

- **Territorial limitations.** The seller’s rights under a license may be limited to particular jurisdictions, which may prevent the buyer from exploiting the IP in certain jurisdictions.

- **Terminated agreements or agreements soon due to terminate.** If the buyer identifies any agreements intended to be included in the purchased assets that have terminated or may soon terminate, the seller should confirm for the buyer whether the parties have executed or are negotiating a new agreement.

**E. IP Disputes and Office Actions**

The buyer should ask the seller to identify and provide relevant documents for all past, pending, asserted and threatened infringement, dilution, unfair competition, misappropriation and other IP-related claims or office actions involving:

- The seller or its affiliates and related to the purchased assets.
• Any key licensee or licensor, if an actual or threatened dispute involving these parties may relate to the purchased assets.

These claims and office actions can include:

• Litigations and arbitrations, including:
  o arbitrations conducted under the Uniform Domain-Name Dispute-Resolution Policy (UDRP);
  o industry-wide patent infringement litigations initiated by non-practicing entities (NPEs), which have been of particular concern in recent years. These lawsuits are typically initiated by patent owners that do not manufacture or use the patented inventions to encourage defendants to enter into royalty-bearing licenses; and
  o trademark and copyright infringement litigation.

• USPTO office actions and inter partes proceedings, including:
  o trademark office actions and patent re-examinations pending before the USPTO; and
  o Trademark Trial and Appeal Board (TTAB) oppositions and cancellations.

• Cease-and-desist and invitation-to-license letters from third-party IP owners.

• Cease-and-desist and invitation-to-license letters to third parties.

• Pending government investigations and proceedings.

The buyer can perform online searches for some of these disputes to confirm the accuracy of the information the seller provides.

When evaluating IP disputes, the buyer should consider, among other things:

• The materiality of the dispute to the purchased business.

• The worst- and best-case scenarios and their likelihood of occurring.

• The availability of alternatives, including a technological workaround, in case of an injunction against the buyer.

• The likelihood of settlement on terms acceptable to the buyer.

• Whether the buyer has a relationship to the adverse party and whether that relationship can aid or hinder resolution of the dispute.

• The possibility of parallel actions in foreign countries.

• The cost of the dispute to date and the likely future costs, including:
o whether liability or responsibility for the dispute can remain with the seller;

o whether the buyer would have indemnification obligations or could look to another party for indemnification coverage; and

o the availability of insurance coverage.

F. Information Technology Assets

The buyer’s IP counsel typically assist with the due diligence of certain IT issues.

Technical aspects of software systems and hardware integration are usually handled in a parallel diligence process by the seller’s and buyer’s IT personnel and are not addressed in this article.

1. Proprietary Software

The buyer should investigate the seller’s rights in any proprietary software included in the purchased assets, particularly if the purchased software includes:

- Software that the seller licenses or distributes to customers.
- Software licensed from third parties that is not readily replaceable or is costly to replace.

For software created by or for the seller and included in the purchased assets, the buyer should confirm that all relevant rights have been assigned to the seller and can be conveyed to the buyer. If the software is created by a non-employee, it generally does not qualify as a work made for hire and all rights must be expressly assigned to the seller.

For software licensed to the seller by third parties and included in the purchased assets, the buyer should ensure that the rights licensed to the seller are consistent with the rights the seller has licensed to its customers or other third parties. In particular, the buyer should confirm that if the licensed rights are terminated:

- The applicable licenses permit the buyer’s customers to continue using the licensed software.
- The buyer continues to have the right to provide its customers with maintenance and support.

2. Open-source Software

The buyer should investigate the seller’s use of open-source software in connection with software included in the purchased assets. Improper use of open-source software may jeopardize the proprietary nature of the seller’s or its customers’ software. In addition, transfer of the software from the seller to the buyer may
violate the terms of the applicable open-source license or trigger previously inapplicable restrictions or obligations. Therefore, the buyer should review the terms of each applicable open-source license agreement, because each agreement may impose different restrictions on and obligations concerning the uses and transfer of the licensed open source software.8

3. Source Code Escrow

For material third-party software licensed to the seller and included in the purchased assets, the buyer should determine whether the seller is either:

- In possession of a copy of the source code.
- Party to a source code escrow agreement.

A source code escrow agreement gives the licensee access to and the right to modify the licensor’s source code on the occurrence of certain conditions (for example, if the licensor enters bankruptcy or ceases operation and cannot continue providing maintenance and support).

The buyer should confirm that any source code escrow agreement naming the seller as a beneficiary includes:

- A provision permitting assignment of the agreement in connection with the contemplated asset purchase transaction.
- An obligation for the source code and other deposited materials, such as documents, to be automatically released if a release condition occurs.
- A present license to the source code. Some source code escrow agreements purport to grant a license to source code that is effective only if the release condition occurs. However, a bankruptcy court may characterize a license grant that is contingent on the licensor’s bankruptcy as an impermissible transfer from the bankruptcy estate.

If the seller has granted other parties access to or rights in any source code included in the purchased assets, the buyer should understand:

- The scope of the other parties’ permitted access.
- The terms and conditions of permitted access.
- The potential impact of any escrow or other agreement governing the release of that source code.

4. Privacy and Data Security

The buyer should confirm that the seller maintains appropriate policies and internal practices concerning its collection, use and protection of personal information included in the purchased assets. Because the complexity of overlapping data protection laws and regulations makes it difficult to confirm the seller’s compliance through due diligence, the buyer often relies heavily on representations and warranties. However, even if the buyer is conducting an expedited due diligence review, it should consider:

- Reviewing the seller’s applicable agreements with service providers and other vendors to ensure those agreements reflect the third parties’ obligations to hold in strict confidence the personal information of the seller’s customers or website users that is included in the purchased assets.
- Consulting local counsel if the purchased business involves or the transaction will result in the cross-border transfer of personal information.
- If the seller collects users’ personal information on a website included in or associated with the purchased assets, reviewing the applicable website privacy policies to ensure that they do not include:
  - an obligation to notify users of a change of control; or
  - any other restrictions that may be triggered by the transaction.

5. Back-office IT Systems

In a carve-out transaction, due diligence is necessary to ensure that the transaction does not disrupt the functioning of and the purchased business’s access to necessary back-office IT systems. Where the purchased business relies on the seller’s IT systems, the seller should provide continued access and support to the buyer for the benefit of the purchased business for a transitional period after closing (see Transition Services Agreement).

6. User-generated Content

If any website included in the purchased assets permits users to post content, the buyer should ensure that:

- The website has appropriate terms of use and a copyright policy.
- The seller has complied with the takedown procedures and safe harbor provisions of the Digital Millennium Copyright
Act (DMCA) in a manner sufficient to qualify for immunity from copyright infringement claims.

III. IP/IT PROVISIONS IN THE ASSET PURCHASE AGREEMENT

IP counsel’s primary role in drafting and negotiating the asset purchase agreement is to handle the various IP and IT-related provisions, particularly:

- Definitions concerning the scope of the purchased IP and IT assets, rights and liabilities (see Scope of Purchased IP and IT Assets).
- Representations and warranties concerning the purchased IP and IT assets, rights and liabilities (see Typical IP and IT Representations and Warranties).
- Covenants and other provisions governing the parties’ conduct relating to the purchased IP and IT assets after signing and closing (see Pre-closing Covenants and Other Asset Purchase Agreement Provisions).
- Ancillary IP documents, such as assignments, transitional licenses and services arrangements (see Ancillary IP and IT Agreements).9

A. Scope of Purchased IP and IT Assets

IP counsel should ensure that the scope of purchased IP and IT assets, rights and liabilities identified in the asset purchase agreement reflects the parties’ agreement and the buyer’s due diligence results.

Particular care must be taken to identify all of the assets and liabilities, including IP and IT assets, to be transferred and to define them clearly in the agreement. This is usually done in the definitions section and by reference to specific disclosure schedules listing purchased and excluded assets and liabilities (see IP Schedules). The purchased assets, rights and liabilities may include:

- IP rights, such as:
  - registrations and applications;
  - goodwill associated with purchased trademarks;
  - claims and causes of action against third parties, for example, rights to sue and recover damages for infringement;

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9. For a general overview of key terms and conditions commonly found in asset purchase agreements, see PLC Corporate & Securities, Practice Note, Asset Purchase Commentary, http://us.practicallaw.com/4-381-0590.
o rights of priority and renewal; and
o rights provided by international IP treaties and conventions.

• IP and IT agreements to which the seller is a party, including rights to royalties and fees.
• Software, in object code and source code form.
• IT hardware, systems and networks.
• Prosecution and litigation files.
• Liability for pending or unasserted claims of infringement or other violations of third-party IP rights.

In a carve-out transaction, the parties typically negotiate the extent to which the assets, rights and liabilities of the purchased business are transferred to the buyer. For example, the purchased assets may include assets to the extent “used in or related to,” “primarily used in or related to,” or “exclusively used in or related to” the purchased business. The buyer will seek to be as inclusive as possible. In contrast, the seller will try to define the purchased assets narrowly and to be very specific about what is included.

B. Typical IP and IT Representations and Warranties

Like other representations and warranties, IP representations and warranties reflect the allocation of risk between the buyer and the seller.

The buyer seeks the broadest coverage possible and wants to ensure that the provisions reflect its due diligence results.

The seller seeks to make only limited representations and warranties that are qualified by the seller’s knowledge and/or other qualifications, including materiality.

The representations and warranties are negotiated in connection with the purchase agreement’s disclosure schedules, which are a collection of lists attached to the agreement. The disclosure schedules are used:

• To identify purchased assets and to provide information to the buyer about the purchased assets (see IP Schedules).
• By the seller, to provide specific exceptions to the representations and warranties.10

1. IP Schedules

The buyer customarily seeks representations requiring the seller to provide disclosure schedules listing, to the extent included in the purchased assets:

- All registered IP and proprietary software owned by the seller.
- All unregistered IP owned by the seller. This is sometimes limited to material items.
- Certain IP and IT agreements to which the seller is a party or from which it otherwise benefits (see also IP and IT Agreements).

In an asset purchase transaction, the schedules help define the scope of the IP and IT assets being acquired, and assist the buyer in its due diligence. The parties may specify that:

- The purchased assets include only those identified in the disclosure schedules.
- The purchased IP and IT assets include all assets “used in or related to,” “primarily used in or related to,” or “exclusively used in or related to” the purchased business, including the IP and IT assets identified in the disclosure schedules.

The second approach is common in carve-out transactions and makes it easier for the seller to prepare the disclosure schedules. For example, for many types of agreements it may be difficult to identify and provide a complete list, such as:

- Shrink-wrap or click-wrap agreements.
- Non-disclosure agreements.
- Invention assignment agreements.
- Customer or end-user agreements entered into in the ordinary course of business.

This approach also allows the buyer to ensure that any particular items it wants to confirm are included in the purchased assets are identified in the disclosure schedules.

Under either approach, the parties usually pay careful attention to these schedules and may heavily negotiate them. For example, the seller typically resists providing a schedule of all IP licensed to it by third parties under agreements included in the purchased assets because of the difficulty of identifying all IP in this category. However, the buyer may require the scheduling of material third-party IP.

If any trade secrets included in the purchased assets are identified in a schedule, the parties should:

- Consider whether their disclosure is required.
• Ensure confidentiality is maintained if they are identified in detail.

2. Sufficiency of IP Assets

The buyer typically requires the seller to represent that it owns or otherwise has the right to use the purchased IP and IT assets, and that these rights will survive unchanged after the transaction. In a carve-out transaction, the buyer also typically requires the seller to give a specific sufficiency representation. This specifies that the IP and IT assets included in the purchased assets, together with the rights provided to the buyer under any ancillary agreements (such as transitional licenses and services arrangements) constitute all of the IP and IT assets and rights necessary to operate the purchased business after the closing in the same manner as the seller operated the purchased business before the closing.

The seller may seek to exclude from the scope of these representations third-party IP that is used in the purchased business but for which a license is unnecessary under applicable law. This may include use under the first-sale doctrine or for which the seller believes protection is available under the fair-use doctrine.

The seller also should ensure that any IP sufficiency representation is consistent with and does not unintentionally expand the scope of any non-infringement representation (see Non-infringement). For example, if the purchased business is infringing a third party’s trademark, then the seller cannot represent that it has the right to use that mark in the purchased business. In addition, the seller should review this representation along with any general sufficiency of assets and no third-party conflicts representations in the purchase agreement to ensure consistency among the various provisions.

The buyer also should consider whether:

• The purchased business is defined elsewhere in the purchase agreement.

• The business should be defined to include the conduct of the purchased business as contemplated to be conducted. In certain circumstances, it may be important that the seller has secured, and can transfer to the buyer, IP rights for a future product launch or service offering.

3. IP Ownership

The buyer will usually want the seller to represent that it is the sole and exclusive owner of each item of owned IP included in the purchased assets, free and clear of all liens.
The seller may resist including unregistered IP within the scope of this representation because of the difficulty in determining ownership of unregistered IP rights. In this case, the buyer should consider whether a knowledge or materiality qualifier for unregistered IP is appropriate.

The parties should clarify whether the purchase agreement’s definition of “lien” includes not just security interests and similar encumbrances, but also licenses granted to third parties.

If the IP included in the purchased assets is subject to any licenses, obligations to grant licenses or other agreements that could otherwise restrict the buyer’s use of the IP, these agreements and arrangements should be appropriately disclosed (see IP Schedules).

4. Validity and Enforceability

The buyer typically wants the seller to represent that the purchased IP assets are:

- Valid, subsisting and enforceable.
- Not subject to any pending or threatened claim challenging their validity or enforceability.

While the buyer may want the representation to cover all IP owned by or licensed to the seller and included in the purchased assets, the seller may seek to:

- Limit this representation to registered IP it owns.
- Distinguish between claims and actions pending or threatened:
  - against the seller (for example, in litigation);
  - against the seller’s owned IP (for example, in USPTO office actions); and
  - against the seller’s licensors (for example, regarding material IP licensed to the seller under agreements included in the purchased assets).

The seller often insists that it can only represent that its IP is valid to its knowledge or that its IP has not been held invalid or unenforceable by a court or government agency. The parties typically negotiate over which of them bears the risk of a future judgment that the IP is currently invalid or unenforceable.

The buyer may insist on strong representations if the portfolio of purchased IP is material and has not been properly maintained (see Registered Owned IP), for example, if the buyer has identified during its due diligence:

- Chain-of-title gaps.
- A failure to record name changes.
- Inadvertently abandoned registrations.
5. Non-infringement

The buyer generally wants the seller to represent that:

- The purchased assets and the operation of the purchased business do not infringe, misappropriate or otherwise violate any other party’s IP rights.
- No other party is infringing, misappropriating or otherwise violating the IP rights included in the purchased assets.
- There are no claims in either category pending or threatened.

The parties usually heavily negotiate this representation because of the risk of unknown, unasserted infringement claims that third parties may later assert against the seller and/or the buyer, in particular, patent infringement claims for which the seller and the buyer may be strictly liable.

Therefore, the seller often seeks to include a knowledge limitation for any non-infringement representation. The buyer typically responds that the seller is in a better position than the buyer to identify and reduce infringement risks. Common compromises include:

- Qualifying the representation with a materiality threshold.
- Limiting the seller’s knowledge qualifier to any third party’s infringement of the IP included in the purchased assets or the purchased business’s infringement of third-party patents.

The buyer may seek to have the non-infringement representations extend for a sufficient period into the past to capture potential claims still within the applicable statute of limitations (for example, the statute of limitations for obtaining damages for patent infringement is six years).

The seller should seek to obtain the buyer’s express acknowledgment that the specific non-infringement representation is the only non-infringement representation in the purchase agreement. This helps to avoid future disputes on whether representations concerning sufficiency of assets, compliance with laws or breach of IP agreements (to the extent the breach of license can be characterized as an infringement claim) also address infringement.

6. Trade Secrets and Confidential Information

The buyer usually wants the seller to represent that it has taken reasonable measures to protect its trade secrets and other confidential information included in the purchased assets, including requiring that its employees, contractors, service providers and vendors execute appropriate confidentiality agreements.
The buyer typically seeks to allocate the risk of confidentiality breaches to the seller because of the difficulty in confirming appropriate practices and identifying breaches through due diligence.

The buyer may desire to extend the scope of representations to cover transferred employees’ compliance with confidentiality agreements entered into with previous employers. This would address the risk of the seller’s or the buyer’s liability for a transferred employee’s unauthorized disclosure or use of a prior employer’s trade secrets or other confidential information.

7. Adverse Effect on Buyer’s IP

The buyer often wants the seller to represent that the closing of the transaction will not result in the imposition of any lien on or license of the buyer’s IP.

The buyer may seek to include this representation to address the risk of springing out-licenses and other encumbrances on the buyer’s IP created when the buyer and its affiliates assume the seller’s rights under transferred licenses and other agreements (see Other Common IP and IT Agreement Issues).

The seller often seeks to tie this representation to general representations regarding the terms of the IP agreements included in the purchased assets.

8. Purchased IP Agreements

The buyer typically wants the seller to represent that:

- All IP licenses and other IP and IT agreements included in the purchased assets have been provided to the buyer.
- The agreements are valid and in full force and effect.
- The seller and the other parties to the agreements are not in breach.

The seller’s IP and IT agreements included in the purchased assets are often covered by more general representations in the purchase agreement concerning material contracts to be transferred. IP and IT agreements may be expressly referenced in those representations or otherwise meet the threshold for covered agreements. Therefore, IP counsel should confirm that the representations do not conflict with the IP and IT representations and the coverage of IP and IT agreements is appropriate for the transaction.

9. Proprietary Software and IT Systems

The buyer often seeks representations specifically addressing the seller’s proprietary software and IT systems included in the purchased assets, including representations that:
• The seller possesses and will transfer to the buyer an accurate and complete copy of the source code for the proprietary software included in the purchased assets.
• There have been no malfunctions, viruses or confirmed or attempted unauthorized access of the seller’s IT assets included in the purchased assets or that will be used to provide services to the buyer after the closing.

10. Use of Open-source Software

If open-source software is used in or with the seller’s proprietary software products included in the purchased assets, the buyer typically wants the seller to represent that the use of that open-source software will not jeopardize the proprietary status of the purchased software or customers’ software.

To assist with due diligence, the buyer often requires the seller to provide a schedule of all open-source software used in or with the seller’s proprietary software products included in the purchased assets.

Because of the complexity of open-source issues, if an expedited transaction schedule inhibits the buyer’s ability to fully understand how open-source software is used in the purchased assets, the buyer may require a strong representation that the use of open-source software will not adversely affect the purchased business or the buyer’s use of the purchased software.

11. Compliance with Data Protection and Privacy Laws

Depending on the nature of the purchased assets, the buyer may require representations relating to the seller’s compliance with data protection and privacy laws, even if this is covered by the purchase agreement’s general compliance with laws representation and warranty. This representation should include international laws if the seller uses the purchased assets to engage in the cross-border sharing of personal information.

12. Other Common IP and IT Representations and Warranties

Depending on the transaction, the buyer may seek representations and warranties specifically addressing:

• **Research and development activities.** These can include, for example, representations relating to the seller’s:
  o ownership of purchased IP developed using government, university or military resources; or
  o obligations due to participation in standards-setting organizations or patent pools.
Compliance with the DMCA. If the seller qualifies as an online service provider under the DMCA and the purchased assets include websites and other Internet-related assets, the buyer may seek representations that the seller:

- has adopted an appropriate copyright compliance policy;
- and
- complies with the DMCA’s notice and takedown provisions.

C. Pre-closing Covenants and Other Asset Purchase Agreement Provisions

Where appropriate, the buyer should seek pre-closing covenants and other provisions concerning IP that may include:

- An interim operating covenant (see Interim Operating Covenant).
- An IP portfolio management provision (see IP Portfolio Management).
- A transitional trademark license provision (see Transitional Trademark License).
- A transitional domain names and e-mail use provision (see Transitional Domain Names and E-mail Use).
- An obligation for the parties to cooperate to obtain third-party consents for IP agreements that prohibit assignment or a change of control (see Third-party Consents).

1. Interim Operating Covenant

An interim operating covenant prohibits the seller from abandoning, assigning or taking certain other actions concerning the purchased IP assets between the signing and closing of the transaction without the buyer’s consent.

The buyer seeks this covenant to ensure that the purchased assets are in substantially the same condition at closing as at signing. The seller in turn typically seeks to ensure that it can continue to use the purchased assets during this period in the ordinary course, free from undue interference by the buyer. For example, the seller may seek the express right to continue granting non-exclusive licenses of the purchased IP consistent with its past practice.

2. IP Portfolio Management

If any unreleased security interest or chain-of-title issues were identified during due diligence (see Common Registered IP Issues) but not corrected before signing, the buyer may seek a pre-closing covenant requiring the seller to provide evidence that it has made
necessary filings to release the unreleased security interests and correct the chain-of-title issues.

The buyer may also require the seller to deliver, within a reasonable period of time before closing, a list of maintenance or renewal fees and filings that are due in the months immediately following the closing. This can help the buyer ensure that no deadlines are missed when the buyer assumes responsibility for maintaining the purchased IP portfolio.

3. Transitional Trademark License

In a carve-out transaction, if the purchased business uses any trademarks that are being retained by the seller, the buyer may need a license to continue using these trademarks for a temporary period after the closing while it transitions away from use.

A short-form license in the purchase agreement typically allows the buyer to make limited use of certain of the seller’s trademarks that were used in the purchased business before the closing for a relatively brief wind-down period (typically 120 days or less), for example, on existing stationary and signage or for an inventory sell-off. The seller should ensure that the license provisions adequately protect its trademark rights and include the right to exercise quality control over the buyer’s use of the seller’s marks.

Alternatively, the parties can enter into a separate trademark license agreement (see Transitional Trademark License Agreement).11

4. Transitional Domain Names and E-mail Use

For a temporary period after closing that may be co-extensive with the trademark transition period, the seller often agrees in a carve-out transaction to:

- Redirect visitors seeking the purchased business from the seller’s website to a website chosen by the buyer.
- Forward e-mails sent to any transferred employees at retained e-mail accounts.

5. Third-party Consents

The buyer may require the seller to attempt to obtain consents from counter-parties to some or all of the purchased IP or IT agreements that prohibit assignment to the buyer or include a change-of-control prohibition. Typically the buyer and seller

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11. For model transitional trademark license clauses favoring a seller or buyer, see Standard Clauses, Transitional Trademark License Clauses (Pro-seller), http://us.practicallaw.com/1-517-8785, and Standard Clauses, Transitional Trademark License Clauses (Pro-buyer), http://us.practicallaw.com/8-519-2764.
heavily negotiate the allocation of the costs of these consents between them.

For any agreement for which the seller cannot obtain consent to the contemplated transaction, the buyer may obligate the seller to either:

- Obtain commercially reasonable substitutes.
- Provide to the buyer the benefits of the agreement.
- Enforce for the buyer’s benefit the seller’s rights arising from the agreement.

IV. ANCILLARY IP AND IT AGREEMENTS

In a carve-out transaction, the parties typically enter into ancillary agreements governing their post-closing relationship concerning shared IP and IT assets and services. IP counsel often handles or assists with the following ancillary agreements:

- License agreements for the buyer to continue using certain IP that is used in the purchased business but is being retained by the seller after closing (see License Agreements). For example, these may include a transitional trademark license agreement (see Transitional Trademark License Agreement).
- A transition services agreement requiring the seller to provide ongoing services to the buyer following the closing for the benefit of the purchased business. In some cases, the buyer may need to provide services back to the seller (see Transition Services Agreement).

These ancillary agreements are typically:

- Mutually agreed on before signing.
- Attached as exhibits to the purchase agreement.
- Signed and delivered at closing.

In addition, the parties also typically enter into assignment agreements at closing or promptly thereafter specifically for the transfer of registered IP owned by the seller that is included in the purchased assets (see IP Assignments).

A. License Agreements

In a carve-out transaction, the seller generally seeks to retain ownership of IP and IT assets owned by it at the time of the acquisition that are primarily used by the seller and its retained businesses. If the purchased business uses these assets, the buyer may require an ongoing license to the seller’s IP to continue conducting its business in a consistent manner after closing.

For example, different divisions of a large company often exploit patents and know-how in separate fields of use. Proprietary
software may also have been developed by the seller and integrated into the purchased business. The buyer may need a license to these IP and IT assets to operate the purchased business without infringing the seller’s IP rights.

The parties must agree on the scope of the license for any IP to be licensed to the buyer. Typically:

- The seller seeks to limit the license to the purchased business, for example, limiting the license grant to the scope of use at the time of the acquisition.
- The buyer in turn may seek more expansive rights, including the right for the buyer to use the IP outside of the purchased business or for scope of the license to cover growth of the purchased business.

In addition, if the seller or its other affiliates must use any purchased IP assets after closing, they may require a license back from the buyer to use those IP assets.

**B. Transitional Trademark License Agreement**

Ongoing use by the parties of the same marks is typically disfavored both for commercial and legal reasons. Therefore, as part of the purchase agreement (see Transitional Trademark License) or as an ancillary agreement, the parties often negotiate a limited license for the buyer to continue using certain of the seller’s trademarks in connection with the purchased business for a transitional period following closing.

**C. Transition Services Agreement**

A transition services agreement typically provides for the seller’s continued performance of certain critical shared business functions for the purchased business during a transitional period after closing. In certain circumstances, the seller requires services to be performed by the buyer for its benefit and the parties enter into a bilateral transition services agreement.

The services covered by a transition services agreement may include, for example:

- IT, including the buyer’s access to software and other IT assets retained by the seller and support services.
- Accounting.
- Call center or customer services.
- Website access.
- Legal.

A transition services agreement allows the transaction to proceed without delay while the service recipient secures the relevant
services for itself through existing service relationships or new contractual arrangements with third parties.

Consents from third-party licensors or service providers are often necessary because IT licenses generally prohibit sublicensing and IT services agreements often prohibit the customer from acting as a service bureau (providing services to unrelated third parties using the applicable licensed software or other IT assets). The parties typically heavily negotiate the administrative and financial responsibility of obtaining these consents.12

D. IP Assignments

In addition to the bill of sale or other transfer agreements executed at closing under which the purchased assets are transferred to the buyer, the parties also typically enter into assignment agreements specifically for the transfer of registered IP owned by the seller that is included in the purchased assets. The buyer should promptly record these IP assignment agreements in the relevant IP registries to:

- Be identified as the record owner of each item of registered IP.
- Protect its ownership interest in the purchased IP registrations, including giving it priority against later recorded transfers.

Often the parties execute a master assignment agreement at closing that covers all registered IP. This assignment agreement typically includes a “further assurances” clause that obligates the seller to work with the buyer to prepare and execute short-form assignment documents appropriate for each IP registry in which the registered IP has been filed.

In some cases, especially when the buyer has reason to believe it will be difficult to obtain the seller’s cooperation after the closing (for example, if the seller continues to exist only as a non-functioning shell company), the parties sign and deliver all of the short-form assignment documents at the closing.13

V. POST-CLOSING ISSUES

In an asset purchase transaction, certain post-closing steps usually are necessary to document the transfer of the purchased IP assets in connection with the transaction. As discussed above, the buyer should file assignment documents in the USPTO, US


Copyright Office and other IP registries to update the record ownership of all IP registrations and applications included in the purchased assets (see IP Assignments). The requirements of IP registries for recording assignment documents vary across jurisdictions. The buyer may need to coordinate with local counsel in each applicable jurisdiction to ensure the assignment documents comply with all formalities. Typically the recordation and related costs are borne by the buyer.

Similarly, the buyer may need to make filings in the USPTO, US Copyright Office and other IP registries to address any chain-of-title issues or unreleased security interests that were not addressed before closing.

The seller may coordinate with the buyer on open matters after closing, including:

- Preparing and executing the required IP assignment agreements.
- Any IP issues that the seller could not fix before closing, such as:
  - unreleased security interests; and
  - chain-of-title issues.
- Authorizing appropriate domain name registrars to transfer to the buyer domain names included in the purchased assets.
- Transfers of any IP that remains owned by the seller or its affiliates but should have been transferred to the buyer as part of the transaction. In this case, the buyer can rely on a “wrong-pocket” provision in the purchase agreement, which specifies the parties’ obligations if assets are not owned by the correct entity after the transaction.
- Prosecution and maintenance of the purchased registered IP.