



Spotting the hidden asset when buying, selling

Due diligence is a key step when a company is involved in a merger, acquisition or divestiture. Many factors come into play, such as business valuation, risk assessment, audits, associated IT technology, and the people and processes involved. Capital investors look at all these factors in making the transaction and structuring decisions for a target investment. Whether on the buy-side or sell-side, a leveraged advantage goes to the party who taps into intellectual property as a due diligence and negotiation tool.

A well-groomed intellectual property portfolio can demonstrate additional risk mitigation factors and build additional confidence in moving forward with a transaction. Identifying intellectual property issues can help reveal hidden transaction risks, provide additional negotiation leverage at the bargaining table and ultimately add to the upside potential of a transaction.

Intellectual property is often times not recognized because it takes on so many forms. Besides trade secrets, there are patents for inventions, design patents, trademarks and copyrights. Copyrights can cover

a wide range of activity, from marketing materials to websites, photos and software. Trademarks can cover the words, the appearance, or both, of a brand, as well as products and/or services. In the United States, trademarks can also cover certification programs and collective, alliance arrangements. Design patents can cover the ornamental aspects of a functional device. Some inventions are patentable if they are novel, non-obvious and have industrial applicability. There are also confidentiality and know-how agreements between companies and/or individuals. Parties on either side of a transaction are clearly at a disadvantage without a solid understanding of the scope of a company's intellectual property.

For many businesses, intellectual property rights seem nebulous until a need arises to assert or defend them. A scramble for intellectual property rights sometimes starts when a competitor starts copying a product, a piece of marketing or a proprietary service. Likewise, the value of intellectual property becomes apparent when a competitor, or unknown party, demands cessation of marketing, making or using a product.

Advantage is on the table by getting a clear picture of the intellectual property when buying or selling, well before an assertion or defense situation arises which can cost hundreds of thousands of dollars.

Confirmation that a company up for sale really owns the claimed intellectual property is important. Various forms of ownership provide access to the intellectual property rights. Some intellectual property may be "owned," some "licensed." Some intellectual property rights, in some jurisdictions, occur through common law or without registration. Other intellectual property rights are secured or enhanced through registration. For patents, primary vehicles for rights access are the licenses and assignments. Sometimes, contractual and granting documents supplement recorded assignments. The determination of ownership of intellectual property rights can have a direct effect on the price a buyer is willing to put on the table in a transaction.

Intellectual property takes on another dimension for companies selling in more than one country. Due to a number of treaties, some rights in one country may be at least partially claimed in another country.

These rights are limited and generally have severe time restrictions, so it is important to evaluate and speculate on future foreign country activity as early as possible.

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Surveying the intellectual property position is important when buying or selling a business or product line. In due diligence, it is prudent to make a determination regarding ownership and validity of the intellectual property. Digging down deep to identify the hidden assets of a business through intellectual property due diligence will likely prove valuable to the party that utilizes it to leverage themselves during a merger and acquisition transaction.

For more information, please contact Charles Knobloch at cknobloch@arnold-iplaw.com, visit www.usptclaw.com or call (713) 972-1150.

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