Intellectual Property in Asset Purchase Transactions
The analysis of IP and information technology (IT) aspects in a specific transaction depends on many factors, such as whether the purchased assets and liabilities:

- Include a diversified IP portfolio or only certain key IP assets.
- Are the assets and liabilities of a mature company or a start-up company.
- Include all or substantially all of the seller’s assets or a discrete division or product line.

IP counsel 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.
- Conducting IP due diligence, including identifying and evaluating relevant IP assets and liabilities.
- Drafting and negotiating the IP and IT-related provisions in the asset purchase agreement, including representations and warranties and covenants.
- Drafting and negotiating any ancillary IP and IT agreements, including IP assignments, licenses and transition services agreements.
- Coordinating any required post-closing IP matters, such as filing IP assignment documents with IP registries in applicable jurisdictions.

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.

TRANSACTION STRUCTURE

In an asset purchase transaction, the buyer only acquires and assumes the assets and liabilities that the parties identify in the asset purchase agreement, subject to any liabilities imposed on the buyer as a matter of law. In this way, asset purchase transactions differ from stock purchase and merger transactions.

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 caused by the transaction itself. In a carve-out transaction, it must also consider the buyer’s right to use IP retained by the seller or its affiliates (see below Carve-out Transactions).
Because asset purchase transactions typically are private with no public filings available about 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 representations or warranties turn 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.

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.

IP DUE DILIGENCE
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:

- The seller’s ownership and right to assign the IP it claims to own. It also includes a review of any licenses of the owned IP included in the purchased assets to other parties.
- IP licenses from third parties that are included in the purchased assets.
- Actual or potential IP-related disputes and office actions for which the buyer is assuming responsibility.
- Proprietary and licensed software and other IT assets included in the purchased assets.

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.

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 asset purchase agreement.

Common Registered IP Issues
By conducting searches of publicly available US and foreign IP databases and reviewing prosecution files and similar materials provided by the seller, the buyer may identify the following 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 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.
The following are common issues concerning issued patents and Copyright © 2012 Practical Law Publishing Limited and Practical Law Company, Inc. All Rights Reserved.

- **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.

- **Unreleased security interests.** Security interests may be recorded against specific items of IP, including US registered IP in the US Patent and Trademark Office (USPTO) and US Copyright Office. If these recordations reflect the seller’s failure to record releases for security interests that no longer exist, the seller should file security interest releases to clean up the records. If they reflect existing liens on the IP, the buyer should confirm whether security interest releases will be filed before or at closing.

- **For trademarks and patents, UCC-1 filings.** 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. Therefore, the buyer should review UCC-1 filings in relevant states.

- **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. 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.

**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.

**Trademark Registrations and Applications**
Trademark applications and registrations that are included in the 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.

- **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.

- **International trademark registrations.**
  International trademark registrations (and national
extensions) issued by the World Intellectual Property Organization (WIPO) only can be owned by and assigned to entities based in countries that are members of the Madrid Protocol or the Madrid Agreement.

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 purchased assets qualify as works made for hire or are the subject of a proper assignment.

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.

**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.
- Unregistered trademarks and service marks.

The buyer should confirm the ownership status of key unregistered IP the seller claims are owned by the seller and are included in the purchased assets. 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.

**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.
The buyer should ask the seller to provide complete and accurate IP and invention assignment agreements included in or applicable to the purchased assets adequately cover trade secrets.

Unregistered Copyrights
The seller’s IP or invention assignment agreements included in or applicable to the purchased assets should include work made for hire language. Work made for hire only applies to copyrightable work that qualifies under Section 101 of the Copyright Act.

Unregistered Trademarks
Similar to registered trademarks, 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.

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.
- 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.

IP AND IT AGREEMENTS
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.

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.

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.
- A change 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’s or vendor’s consent may need to be obtained before closing to avoid a breach of the agreement or termination by the counterparty.

For more information on evaluating assignment and change-of-control provisions, search IP Licenses: Restrictions on Assignment and Change of Control on our website.

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 agreement must include the goodwill associated with the assigned marks or may be deemed an invalid assignment in gross that can invalidate the trademark.
- 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.
- 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. For a sample trademark coexistence agreement, search Trademark Coexistence Agreement on our website.

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

Other Common IP and IT Agreement Issues
Other matters to consider in the seller’s IP and IT agreements included in the purchased assets may 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 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.

- **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.

### 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.
- USPTO office actions and *inter partes* proceedings.
- 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.

> For information on evaluating IP disputes, see the complete, online version of this resource. Search Intellectual Property: Asset Purchases on our website.

### Information Technology Assets

The buyer’s IP counsel typically assist with the due diligence of certain IT issues, including reviewing:

- **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; or
  - 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.

- **Open-source software.** 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.

> For more information on open-source software, search Open-source Software: Use and Compliance and Open-source Software Licenses: Key Terms and Conditions Checklist on our website.

- **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 or party to a source code escrow agreement. The buyer should confirm that any source code escrow agreement naming the seller as a beneficiary includes:
  - a provision allowing 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; and
  - a present license to the source code (for more information, search Software Source Code Escrow Agreements on our website).
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.

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.

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; and
- 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.

For a more detailed discussion of IT due diligence issues, see the complete, online version of this resource. Search Intellectual Property: Asset Purchases on our website.

IP AND 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.
- Representations and warranties concerning the purchased IP and IT assets, rights and liabilities.
- Covenants and other provisions governing the parties’ conduct relating to the purchased IP and IT assets after signing and closing.
- Ancillary IP documents, such as assignments, transitional licenses and services arrangements.

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. 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;
  - rights of priority and renewal; and
  - 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.

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.

IP Disclosure 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.

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). 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.

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.

**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.

**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.

**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.

**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.

**Other Typical IP and IT Representations and Warranties**
The buyer may also seek representations and warranties specifically addressing:
- **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.
- **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.
- **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; and
  - the seller and the other parties to the agreements are not in breach.
- **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.

**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.

**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 asset purchase agreement’s general compliance with laws representation and warranty.

For a more thorough examination of IP and IT representations and warranties in asset purchase agreements, see the complete, online version of this resource. Search Intellectual Property: Asset Purchases on our website.

**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.** This 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.
- **An IP portfolio management provision.** This may require the seller to provide evidence that it has made necessary filings to release unreleased security interests or resolve chain-of-title issues that were identified during due diligence but not corrected before signing.
- **A transitional trademark license provision.** This permits the buyer to continue using certain of the seller’s trademarks for a temporary period after the closing while it transitions away from use, particularly in a carve-out transaction.
- **A transitional domain names and e-mail use provision.** This may include the seller’s obligation to redirect visitors seeking the purchased business from the seller’s website to a website chosen by the buyer.
- **A third-party consents provision.** This may obligate the parties to cooperate to obtain third-party consents for IP agreements that prohibit assignment or a change of control.