

## FOLEY EXECUTIVE BRIEFING SERIES



# Foley Executive Briefing Series

## Pre-Transaction Due Diligence

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## FOLEY EXECUTIVE BRIEFING SERIES

# Introduction

- Types of Transactions
  - M&A
  - Financings
  - Licenses
  - Strategic Alliances
- Types of Due Diligence
  - M&A: Buyer Side vs. Seller Side
  - Patentability
  - Freedom to Operate



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## Freedom to Operate

- Purpose: to determine that no third party IP can dominate the planned activities of the parties.
  - Technology area
  - Geography

Search for and analyze third party IP *before* beginning the negotiations; have a plan because these can kill a deal.



## Market Exclusivity

- Patents
- Trademarks & copyrights
- Know how (trade secrets)
- Exclusive rights (licenses)

A dominating position is best, but as long as the key products and processes are protected, there is room for negotiation.



## Optimizing IP

- License and collaborations
  - Understand the IP rights likely to be created, and try and reserve these prior to entering into any deal.
- Making attractive for a sale
  - Create IP that results in FTO issues for the potential buyer.
- Considerations for buyer
  - Does the IP give me a blocking or dominating position?



## Take the Other Side's Perspective

- Polish the “crown jewels”
- Eliminate items that could be “deal killers”
- Use the due diligence process to generate comfort on the other side



## Anticipate Contract Provisions

- Assets – Title and liens
- Liabilities – product warranty, tax, environmental, employment, IP
- Jump start the disclosure schedules
- Consider insurance for risk management



## Everyone Has Housekeeping

- Corporate records
- IP records, including confidentiality agreements with assignment of inventions
- Drafts and execution copies
- Transaction deliverables
- Employment issues



## UNION issues

- Purchaser's Obligations with respect to Predecessor Union
- Impact of Different Types of CBA provisions
  - Successors and assigns clauses
  - Arbitration Clauses
  - Withdrawal liability
- Grievances and unfair labor practices
- WARN Act compliance



## Statutes and Employment Issues

- FLSA, and other wage/hour matters
- Workers Compensation
- Employment Litigation
- Affirmative Action Plan and Diversity Issues
- Independent Contractor Agreements
- Health and Welfare Plans
  - How deal structure affects benefit plans
  - Severance programs
  - Tax qualified retirement plans



## Employment Contracts

- Employment Agreement
- Employment Agreement w/Non-Compete Clause
- Sales Rep Agreement
- Consulting Agreement
- Subcontractor Agreement
- Business Consultant Agreement
- Independent Contractor Agreement
- Employee files and doc retention



## Litigation Issues Generally Detract from Deal Making

- Litigation issues will likely affect the deal in a negative way. Fix these before beginning negotiation discussions.
  - Shareholder disagreements
  - HR problems
  - EHS concerns
  - SEC/FDA and administrative proceedings
  - Insurance disputes



## Concluding remarks

- Successful deal making requires an understanding of the business reasons for the deal.
- IP should be reviewed to remove problems, and to create assets that might enhance value.
- Company operations should be reviewed to remove problems involving HR, record keeping, EHS.



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