BRIDGING THE COMMUNICATION GAP IN TECHNOLOGY TRANSACTIONS

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When the the purpose and value of an acquisition or other strategic transaction is being driven in large part by the acquisition of intellectual property assets, an information gap often exists between the business people and deal lawyers (on the one hand) and the technical personnel and IP lawyers (on the other hand) who are tasked with getting the deal done. In such deals, the business folks often have little knowledge of, and are inattentive to, the numerous details and factors that may undermine the value of IP assets, and the deal lawyers and business people often "punt" to the IP lawyers when it comes to intellectual property matters. On the other hand, the technical personnel and IP lawyers are often unaware of the business and value assumptions that drive the deal valuation. As a result, an information void often exists between the two groups, and the following are some examples of the types of information and considerations that sometimes fall into the void. In-house counsel and their outside advisors are well advised to make sure that these questions and issues are openly considered and discussed between these two groups.

1. What is driving the valuation of the transaction on the business end? The business folks should clearly communicate to the IP attorneys and technical personnel the underlying assumptions driving valuation. How is the deal "being sold" to management or the board?

2. Is the scope of IP protection consistent with the understandings and expectations of the business people? Often the business people overestimate the extent of protection (such as the scope of a patent claim) and would value the technology differently if they knew otherwise. One example is when business people understand a patent as covering a composition of matter when it really only covers a process involving the composition of matter.

3. What is the scope of management's plan to expand the business or commercialize the technology of the target? This is relevant to whether other contractual "non-IP" provisions may exist that may undermine or limit management's strategy with respect to the acquired IP. For example, does the target have any agreements containing restrictive covenants, rights of first refusal, third-party development rights,

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or other provisions that will be inherited and may collaterally undermine the ability to fully exploit the technology in the desired manner? These provisions can sometimes be found in nondisclosure agreements, distribution agreements, marketing agreements, and development agreements.

4. Can we use the transaction as an opportunity to tweak agreements, such as in-bound licenses, if the consent of the licensor is otherwise going to be required? For example, sometimes a royalty formula or sublicense limitation may not function properly under the circumstances, but the acquiror might be able to get a "clarification" on the formula from the licensor as a part of the consent process.

5. Is there any possibility that the acquisition of the target technology could be swept into an existing out-bound license or third-party developpent right of the acquiror? An out-bound license agreement will often include after-acquired technology of the licensor within the licensed field.

6. Are there legal limitations that may affect management's ability to commercialize the acquired technology in the manner anticipated? For example, if the acquired technology was federally funded, management's plan to manufacture products using the technology overseas may be impacted by the Bayh-Dole Act.

7. Are there any former key employees or consultants of the target who are no longer, or may soon be no longer subject to a non-compete, and could these people be a true competitive threat?

8. In the acquisition documents drafted by the deal lawyers, in addition to the standard IP reps and warranties, should there be any IP-specific closing conditions, special indemnities, MAE provisions, or post-closing purchase price adjustments? This is something that the business people and deal lawyers should discuss directly with the IP lawyers and technical personnel.

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