



haynesboone

Setting precedent.

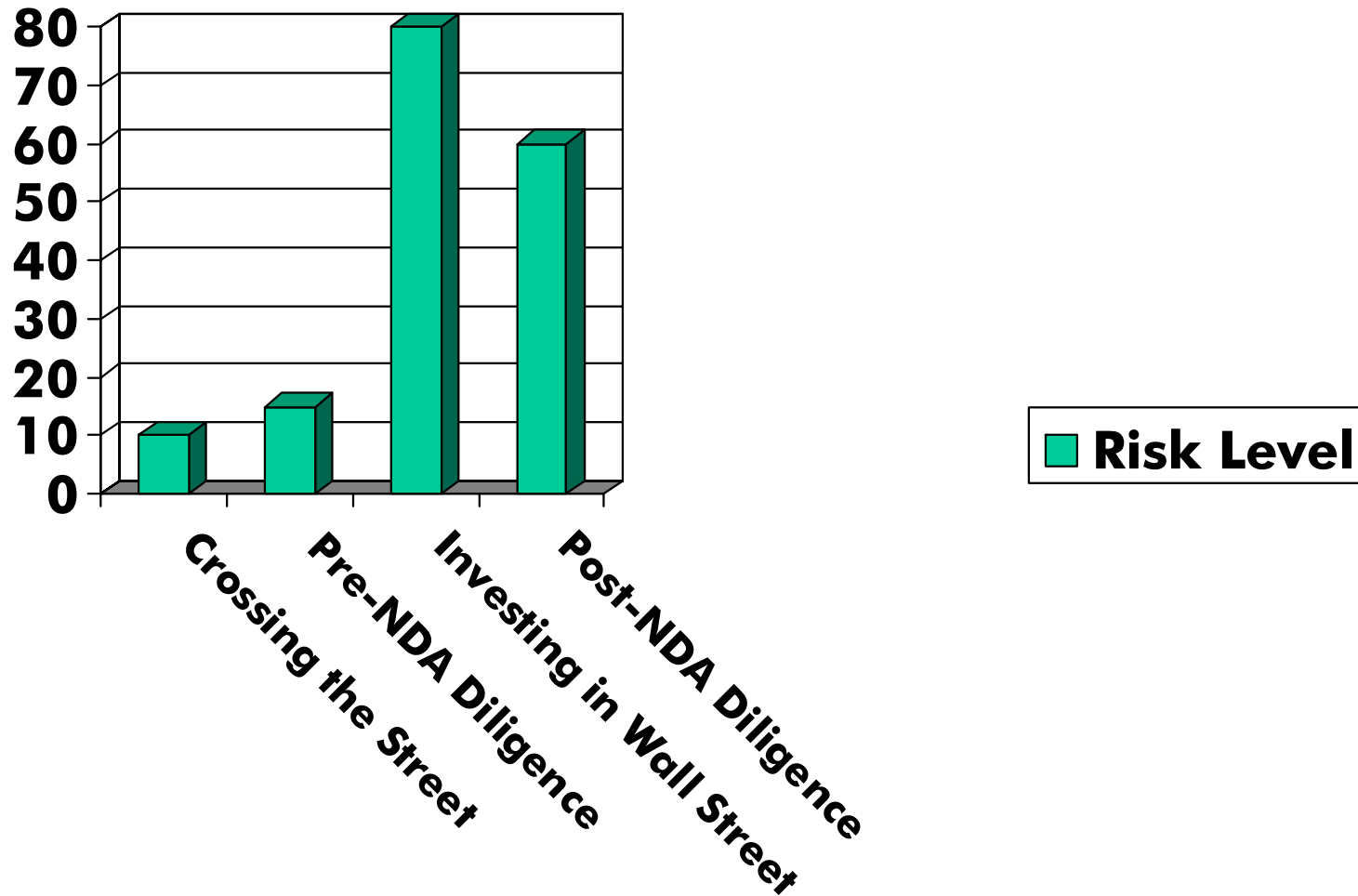
Dance Fever - Living (La Vida Loca) Under Your NDA: Strategies for Preliminary M&A Diligence

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Risks Before & After NDA



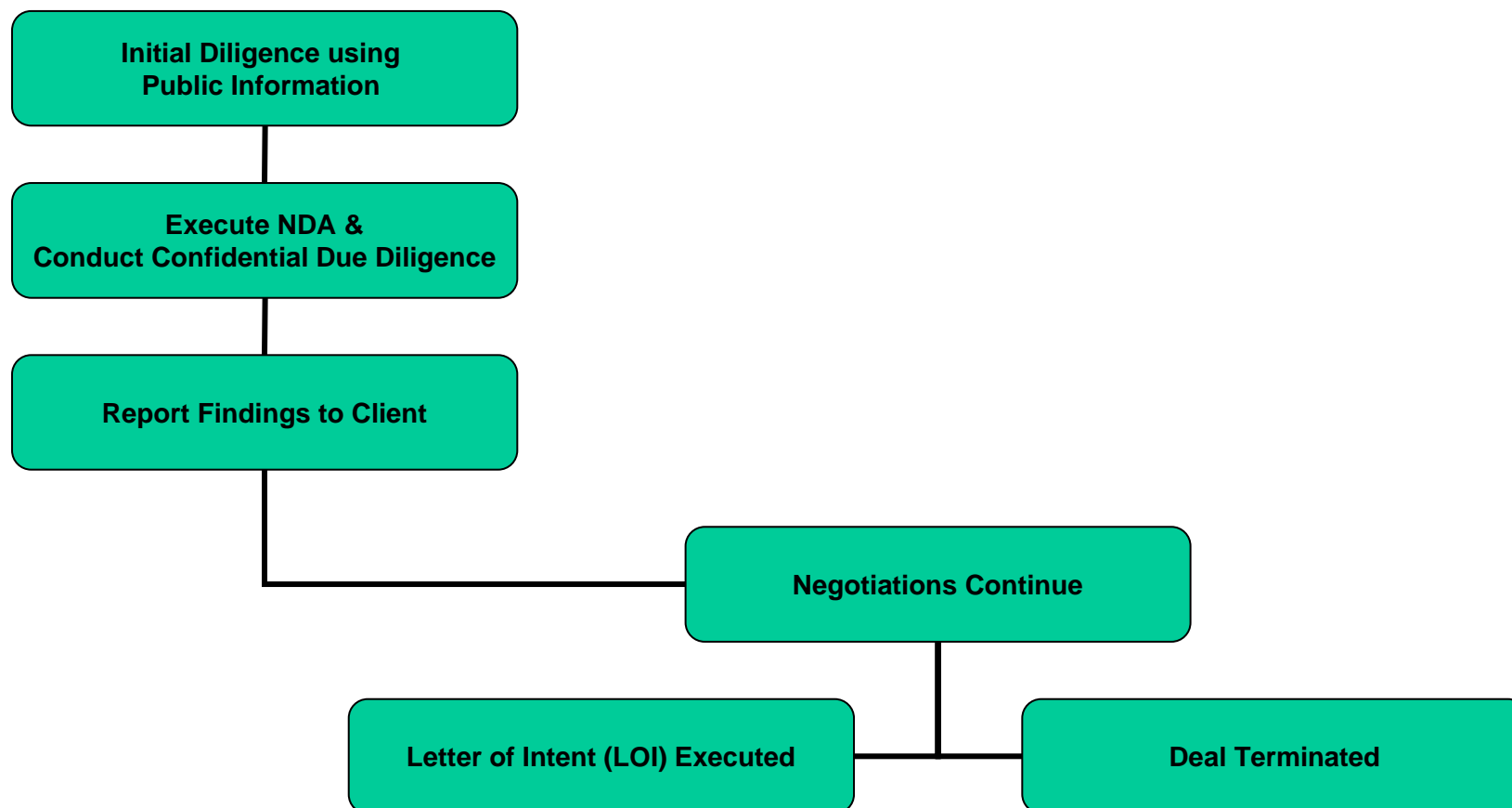
Roles in the IP Due Diligence

- Buyer's counsel's inquiry:
 - Any unacceptable risks/deal breakers?
 - Any risks / problems that would drive the price down?
- Target's counsel's objectives:
 - Help Target explain IP Rights & disclose material risks
 - Demonstrate minimal infringement risks to Buyer
 - Establish high value of IP to maximize deal value
- Both: Avoid creating later-arising problems

Key Questions in Due Diligence

- What IP exists in Target & relevant market?
 - Define the type of rights
- Does the IP have commercial value?
 - Any impairments to value?
 - Do IP Rights exclude others?
- Does the Target have rights to use the IP?
 - Third party IP may dominate target IP

Pre-LOI Overview



Common Areas of Concern

- At what time is counsel likely to encounter ethical/privilege concerns?
 - a) Confidential due diligence review
 - b) Reporting to the client
 - c) Deal completion
 - d) Deal termination
 - e) All of the above

Confidential Due Diligence Review

- Subject to NDA terms
- Target's counsel may limit materials disclosed to Buyer's counsel/consultants
- Likely to see areas of concern in Target's documents and personnel interviews
- Buyer should limit number and type of recipients of materials under NDA

Confidential Due Diligence Review

- Target's counsel - tailored disclosures
 - Preserve attorney/client privilege
 - Limit access to freedom-to-operate opinions
 - Avoid Buyer's relying on Target's opinions
 - Limit access to on-going litigation materials
 - Comply with confidentiality agreements with third parties, including opposing litigants

Confidential Due Diligence Review

- Target's counsel - tailored disclosures (cont.)
 - Consider representations and warranties
 - Is disclosure necessary for due diligence?
 - Must not conceal material information
 - Track materials to guard against misuse:
 - what is actually disclosed to Buyer; and
 - who is receiving the materials

Conflicting Duties

- The NDA usually prohibits disclosure of confidential information for any purpose.
- Under 37 C.F.R. § 1.56, patent counsel and others associated with patent application prosecution have a duty to disclose material information to the U.S. Patent Office.

Confidential Due Diligence Review

Example: During the confidential review, the Buyer's patent counsel uncovers information from the Target company indicating that one of the Buyer's patent applications is not novel.

Confidential Due Diligence Review

Questions:

Under 37 C.F.R. § 1.56, Buyer's patent counsel must disclose the information to the Patent Office? T/F

Buyer's patent counsel violates the NDA by disclosing the information to the Patent Office? T/F

Confidential Due Diligence Review

Example: During the confidential review, the Buyer's patent counsel uncovers information from the Target company indicating that one of the Target's patent applications is not novel.

Confidential Due Diligence Review

Questions:

Under 37 C.F.R. § 1.56, Buyer's patent counsel must disclose the information to the Patent Office? T/F

Buyer's patent counsel must inform Target of the information? T/F

Confidential Due Diligence Review

- NDA restrictions may limit zealous advocacy and new innovations
 - Diligence counsel involved in patent prosecution may have difficulty segmenting information
 - Buyer's diligence personnel conducting R&D may be accused of violating NDA even if new technology independently developed

Confidential Due Diligence Review

- TIP: Use Buyer's patent counsel familiar with the technology, but not actively involved in the prosecution
- TIP: Use Buyer's technical experts that are not developing IP for the company
- In both cases:
 - No duty of candor to the U.S. Patent Office
 - Potential conflicts with NDA less likely

Report Findings To Client

- Buyer's counsel report to management
 - Written v. Oral
 - Negotiation positions on impact of third party IP Rights, validity of Target patents, potential problems that may limit future actions
 - Unless clearly retained, report to only a single client; other investors need separate counsel
 - Reserve/designate issues for deep review post-Closing

Report Findings To Client

- Buyer's counsel report (cont.)
 - Identify problems and continuing violations
 - Consider preparation of financial impact documents relying on advice of counsel:
 - Are assumptions made that Target's IP covers Buyer's products?
 - Are certain valuations made assuming opinions rendered by counsel?
 - Maintain the attorney/client privilege

Actions If Deal Completed

- Rectify problems identified in due diligence
 - Make any required disclosures to U.S. Patent Office
 - Complete any side agreements/licenses necessary for continued operation of Target business
 - Obtain freedom-to-operate opinions for newly acquired product lines, if needed
- Correct title and record deficiencies

Risks When Deal Terminates

- Either side may initiate IP litigation against the other – minimize risk for when Target sues Buyer
- Direct competitors v. Venture Cap Fund/Indirect
- Buyer may assert Target waived privilege based on due diligence review
- Target may assert violation of NDA if Buyer extends IP into Target's business
- Financial projections supporting deal and negotiation positions may be discoverable

Buyer's Side - Tips

- Retain (a) counsel, and (b) technical personnel, to conduct diligence without triggering disclosure obligations and/or violations of NDA in patenting later tech.
- Careful preparation of financial projections based on advice of counsel to maintain attorney/client privilege

Target's Side - Tips

- Develop draft Reps/Warranties; test accuracy before Buyer due diligence
 - Make necessary disclosures early
- Before diligence determine what, if any, privilege waiver the client will agree to
- Request due diligence inquiries, and track disclosures, in writing

Thanks for your Attention. Questions?

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