

Intellectual Property Assets

Ryan Compton

ryan.compton@us.dlapiper.com



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“In the old days, you would have one lawyer to handle everything: speeding tickets, buying a house, contracts, litigation, real estate, copyrights, leasing, entertainment, intellectual property, forensic accounting, criminal offenses... the list goes on. Now, you have to have a separate lawyer for each one of those categories!”

-James Belushi

Intellectual Property



Intellectual Property (“IP”): 4 Main Types

- **Trademarks** – Indicators of source, provides right to prevent others from using confusingly similar source identifiers, e.g., names, slogans, logos, colors, sounds, etc. ~ = BRANDS
 - May arise from use (common law rights) or, more commonly, statutorily registered rights
- **Patents** – Protects inventions, and provides right to exclude others from making, using, importing, offering for sale or selling the claimed invention ~ = IDEAS
 - Arises from statutorily registered rights
- **Copyrights** – Protects original expression; the ability to copy, modify, distribute, publicly perform and publicly display must be granted by copyright owner ~ = EXPRESSION OF IDEAS
 - Arises automatically upon creation under international treaty; further registration is available in some jurisdictions; obliged in the United States for certain remedies to be available
- **Trade Secret** – a process, formula, data, and other non-public information that provides an economic advantage because it is kept secret ~ = KNOW-HOW, SECRET IDEAS AND EXPRESSION
 - Generally, unlimited in duration as long as it is kept secret; protected by state law, Uniform Trade Secret Act
- Etc: Data, domain names, social media handles

Guess the type of Intellectual Property

The Godfather

Pfizer vaccine

Piano Man (song)

Self-driving car
technology

Dunkin'

Coca Cola recipe

Microsoft

Google's search
algorithm

COPYRIGHT

TRADEMARK

PATENT

TRADE SECRET

Intellectual Property Diligence in Transactions

A selection of issues to consider; not a complete list.

- Scheduling:
 - Check that the scheduled IP is correct- registrations, applications, etc.
 - Ex. Rolls Royce
- Set the table:
 - Materiality of the IP to the transaction
 - Asset purchase vs. Stock purchase/mergers
 - Representations and warranties, scheduling generally more significant in the former, possible assignment issues
 - Representations and Warranties Insurance
 - Two rounds of diligence: Seller to Purchaser; Purchaser to Insurer
 - More fulsome representations and warranties as insurer is taking the risk of breach
 - With caveats and/or liability baskets
 - But high standard of diligence expected by the Insurer as a result

Intellectual Property Diligence in Transactions

- Trademarks:
 - Substantive trademark review to look at inherent registrability, strength of the mark (spectrum of distinctiveness), and enforceability
 - Third party licenses having inappropriate terms: sufficient quality control? perpetual without proper termination? Assignment without consent of licensor? Goodwill inures to licensor?
- Patents:
 - Substantive patent due diligence should be conducted by patent attorneys- strength and scope, validity and enforceability, freedom to operate, etc.
 - Have all employees and/or independent contractors who have created patentable inventions signed invention assignment agreements?
- Copyrights:
 - Same question as above, but do those assignments have the “magic words” of a present-tense assignment? Work for hire? Belts and suspenders?
 - Bundle of Sticks- any exclusive licenses?
- Trade Secrets:
 - NDAs, PIAAs, access controls

Why is IP Due Diligence Important?

Theranos

- Theranos used their extensive patent portfolio to encourage venture capitalist firms to invest.
- 544 of the patents list Elizabeth Holmes as an inventor (this has been questioned)
- NPE Fortress loaned Theranos \$100MM secured by these patents
- “Assuming that the charges against Holmes and Theranos are proven, one might reasonably ask how a company that never developed its claimed technology, and went to great lengths to conceal its failures, could have obtained hundreds of patents protecting that non-existent technology.”

- Bill of Health blog, Harvard Law School

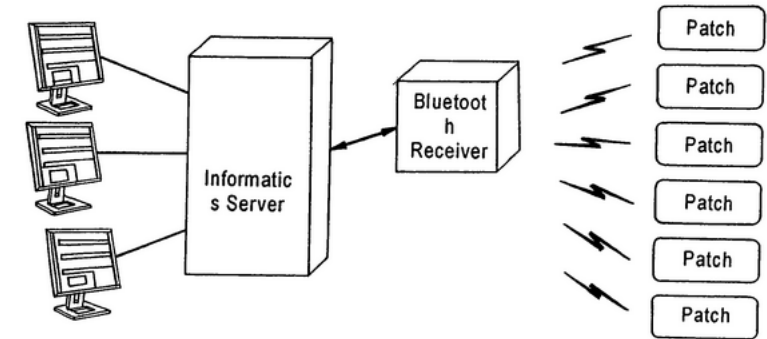
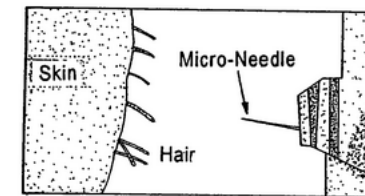
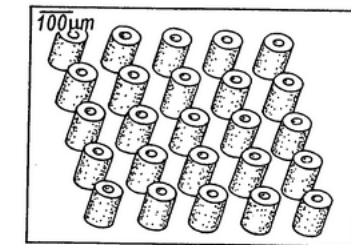


Fig. 3



100 micrometer diameter microneedle is roughly the diameter of human hair

Fig. 4(a)



An array of silicon microneedles

Fig. 4(b)

Intellectual Property Diligence in Transactions

- Registered IP:
 - Have they registered the material IP of the company?
 - Which entity owns the IP? Are there intercompany licensing agreements?
 - Are all fees paid? Anything allowed to go abandoned through neglect?
 - Chain of title issues / Existing Liens / Security Interests
 - Note that IP portfolio management costs can easily become significant.
- Litigation:
 - Administrative venues: Trademark Trial and Appeal Board, Patent Trial and Appeal Board, Copyright Claims Board, Copyright Royalty Board
 - Federal and State IP litigation: infringement (offensive or defensive), invalidation
 - Demand letters / offers to license inbound or outbound? Seat audit letters?
 - Potential known liability? Risk shifts for unknown liability (particularly patent infringement)? Potential for large copyright statutory damages?
 - How do they monitor for infringement?
 - Settlements/ releases/ consents/ covenants not to sue

Intellectual Property Diligence in Transactions

- Tax Structure Diligence:
 - Most companies of a large enough size with significant IP portfolios will have leveraged that value through international tax-driven IP holding company or licensing structures
 - Huge potential upside in tax savings before current OECD proposal
 - Many of those structures will have been put in place by consultants without consideration of potential negative impact on the intellectual property.
 - Some possibility of loss of rights in trademarks particularly due to separation of legal and beneficial ownership not done correctly
- Joint Ownership / Joint Development / JVs
 - Restrictions or unrestricted use: both can be problematic
 - Varies depending on IP types
- Government Contracts / government funding

Other Issues in IP Due Diligence

- Software:
 - Third-party software incorporated into proprietary software:
 - Assignable license?
 - Open Source Software – need specialist review
 - Incorporated vs used to create
 - Trigger an obligation to distribute or disclose the proprietary software
 - Automated scanning software for security, open source, and other issues
 - IT Systems and Issues largely handled by Privacy counsel and an outside IT vendor
- Websites and Social media assets
 - FTC and similar consumer protection laws
 - Privacy laws
 - Digital Millennium Copyright Act
- So what's the next type of IP we are tracking after the Web 1.0 and 2.0 assets above?

“What is ‘real’? How do you define ‘real?’ If you’re talking about what you can feel, what you can smell, taste, and see then ‘real’ is simply electrical signals interpreted by your brain.”

- Morpheus, “The Matrix” (1999)

Metaverse

- Made up of shared, online, and persistent digital spaces, the metaverse can be conceptualized as a combination of digital layers over the physical world (think Pokémon Go), immersive worlds we inhabit through avatars (think the Matrix), and the internet familiar to us today.
- Already we can buy virtual Gucci for our Roblox avatars or watch Ariana Grande perform live on Fortnite.
- Companies like Facebook[®], Warner Bros.[®], Paramount[®], Hyundai[®], Gucci[®], Coca-Cola[®], Anheuser-Busch[®], Sephora[®], and HBO[®] have all made filings with the USPTO to cover virtual goods.
- Some brands have announced plans to link virtual goods to the physical goods. (Ex. order in the metaverse and can pick up in the physical store).



Web 1 – Read-Only Content

- Static webpages
- AOL, early blogs/ message boards

Web 2 – User-Generated Content

- Also called the participative social web.
- Facebook, YouTube, Tumblr

Web 3 – Blockchain-Based

- Data decentralized
- Promises to organize “the world’s information” in a more attainable way than existing search engines.
- So.many.blockchains.

Web 1.0	Web 2.0	Web 3.0
Mostly Read-Only	Wildly Read-Write	Portable and Personal
Company Focus	Community Focus	Individual Focus
Home Pages	Blogs / Wikis	Live-streams / Waves
Owning Content	Sharing Content	Consolidating Content
WebForms	Web Applications	Smart Applications
Directories	Tagging	User Behavior
Page Views	Cost Per Click	User Engagement
Banner Advertising	Interactive Advertising	Behavioral Advertising
Britannica Online	Wikipedia	The Semantic Web
HTML/Portals	XML / RSS	RDF / RDFS / OWL

Digital Assets

- Digital Assets like NFTs (non-fungible tokens) have been a widely discussed topic, making headlines by selling for millions of dollars.
- Content creators and owners have increasingly started selling NFTs representing a range of digital and physical assets, including internet memes, digital art, tickets and memorabilia. Trademark filings in this space have increased many times since 2021.
- Examples of the entities who have filed trademarks in relation to NFTs: Ubisoft, Mattel Inc, Entertainment Weekly, and the Los Angeles Lightning.

TECH | FEATURED STORIES | CRYPTOCURRENCY

Beeple sold an NFT for \$69 million

Through a first-of-its-kind auction at Christie's

By [Jacob Kastrenakes](#) | [@jake_k](#) | Mar 11, 2021, 10:09am EST



336

Saturday Night Live



What the hell's an NFT?

Owned by 5577 336 favorites

Includes unlockable content

Make offer

Description

Created by SaturdayNightLive

This NFT is limited to just one edition and will never be minted again. In addition to winning the "What the hell's an NFT?" NFT, the highest bidder of this auction will receive two tickets to a taping of "Saturday Night Live" on a mutually agreed upon date during Season 47 (valid for 2 people, participants must be 16 or older). Must be holding this NFT on May 31, 2021 to redeem this offer

About Saturday Night Live

Price History

All Time

All Time Avg. Price **£171.99**



NFTs

- Put simply, a blockchain is a decentralized digital database which cannot be edited. A virtual ledger.
- Tokens are minted on a blockchain.
 - when one token can be exchanged for another, e.g. one bitcoin is replaceable with another bitcoin, it is fungible.
- Non-fungible tokens (NFTs) are unique digital assets.
 - Digital art is a common example, but it could be anything which is capable of being stored digitally.
- The data which records their origin and chain of ownership is stored using blockchain technology or other distributed ledger technology.



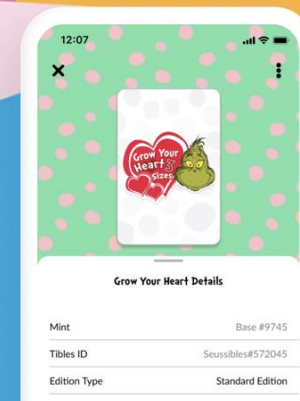
My Very First NFTs

Seussibles! Collectibles

NFT Metadata

All the critical information about your Seussibles! NFT collectibles is at your fingertips. Cards swipe up to reveal:

- Mint, ID, Edition, and Series information
- Creation and Acquisition dates
- Ownership History
- And more!



Issues relating to NFTs

- There is limited caselaw around IP, NFTs, and the metaverse- but a ton of pending cases!
 - Nike vs. StockX
- Lots of confusion around what one is buying when you buy an NFT. Most often, it is a link to a representation online of some piece of IP, but **not** the IP itself.
 - It could be used to prove title to some piece of physical or non-physical IP, or simply the ownership of some right associated with the IP (e.g. receipt of royalties on a song).
 - Copyright's bundle of sticks concept could mean that NFTs could be used to sell (and prove ownership of) certain rights
- Non-centralization / cross-platform compatibility / future consolidation of the market
 - Who owns the Metaverse? Which metaverse will win? Walled gardens or interoperability?
- Environmental considerations / Public perception of NFTs/Crypto
- Quickly becoming used for infringement of IP- minting NFTs incorporating underlying IP in which they have no rights
- Regulations for digital assets (particularly cryptocurrencies) are coming, e.g. recent Executive Order

Questions

Thank you



Ryan Compton
ryan.compton@us.dlapiper.com

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