Protecting Your Intellectual Property Rights When Buying or Selling a Business

Description

As seen in the *Providence Business News* on June 10, 2016.

Every business owns valuable intellectual property (IP) which should be protected. Unfortunately, the day-to-day rigors of running a successful business typically push IP protection to the bottom of the to-do list.

If you are selling or buying a company, IP protection issues quickly become part of the due diligence review process. For sellers, it is wise to address IP issues well before the business is offered for sale. For buyers, knowing what questions to ask and being prepared to address IP questions are essential to make sure you are acquiring the assets for which you have bargained.

The following stories illustrate a few areas for buyers and sellers to consider when reviewing IP in a business sale transaction.

Who owns my website?

In reviewing the documentation regarding a seller's website, a buyer uncovered the fact that the site was registered in the name of a prior web developer. Upon further inquiry, it was determined that the seller's relationship with the web developer soured, and that the web developer was out of business and nowhere to be found. Getting the website transferred to the rightful owner was not easy, as the hosting company was reluctant to make a change without the written consent of the owner of record. The buyer demanded that some of the purchase price be set aside and the seller had to spend considerable time and resources to rectify the problem before receiving the money.

Does my website contain third party content?

In preparing for a sale, a business owner found that her website was using content and photographs in its advertising that belonged to another company and for which no authority to use had been granted. The seller had to rework its advertising and the buyer demanded a strong indemnification clause and a portion of the purchase price to be set aside to protect itself from an infringement claim being brought in the future.

Are my trademarks protected?

A buyer conducting due diligence found that a seller's trademark registrations for its name, logo and tagline had all expired. Making matters worse, someone else had claimed the name and registered it with the U.S. Patent and Trademark Office. As the name was an essential part of the seller's brand, the seller was faced with accepting a lower purchase price to complete the sale.

Are my IP filings current?

A seller was reviewing its IP and discovered that, contrary to belief, no applications to register trademarks, copyrights, or patents had ever been filed to protect the company's intellectual property. The seller had to spend considerable time and money to make these filings before the sale, at the seller's expense.

What have I agreed to in contracts with third parties?

A buyer was reviewing a seller's distribution agreement with a manufacturer and discovered a prohibition against Internet sales other than through the distributor's own website. The seller had been booking several millions of dollars annually in sales through Amazon.com and similar websites. These sales were so essential to
the transaction that the buyer walked away.

Am I protected outside the United States?

In most cases, intellectual property protection only covers a specific country. United States filings do not cover the rest of the world. It is especially important to protect intellectual property in countries where a company manufactures or has significant sales. While negotiating a sale of its company, a seller that manufactured its products in China discovered that another company had registered its brand names and logos in China, and could prevent the seller from exporting its products out of China back to the United States. The buyer demanded a significant reduction in the purchase price as a result.

Whether you are a buyer or a seller of a business, careful planning and attention to detail concerning IP protection is essential to a successful transaction. For sellers, lead time is particularly important, as are clear and focused questions from buyers during due diligence.

Date Created
June 10, 2016