

Trademark transfers: be a hero, not a bystander

29 pointers on how to effectively achieve
the transfer of trademark rights



When I first met Steve Jobs, there were only four of us alone in a room: Jobs, his general counsel, myself and my client's president. Apple needed my client's trademarks enough for Jobs to make a cameo appearance to negotiate the deal personally.

Apple's Christmas product launch was less than a month away – in my mind, the short time fuse and Apple's use of Jobs to negotiate only made the sales price go up. It meant that Apple was desperate. The problem was that my client, an international company based overseas, liked its marks and did not want to sell.

After the introductions, the Apple team opened a six-inch-thick binder and explained the fine grain of the client's trademark portfolio – more than even the client probably knew. For example, Apple knew every country worldwide where the client's marks were registered, but not used, and where third parties were using the client's marks. It probably knew more than it told us; it was nothing short of impressive. You can probably guess what happened after that.

My experience with Apple's assiduous due diligence left an indelible impression on me as a gold standard in trademark transactions. So it came as a shock when in July 2012 Apple agreed to pay a Chinese company \$60 million to settle litigation about the IPAD mark, despite an assignment where Apple was the buyer. The news seemed incongruent with my own experience.

The Apple litigation involved Chinese electronics company Proview Technology (Shenzhen) Co Ltd ('Proview China'), which owned two IPAD registrations in China related to computers, with rights dating back to 2000. Proview China's Taiwanese affiliate, Proview Electronics (Taiwan) Company Ltd ('Proview Taiwan'), also owned IPAD registrations in Taiwan and other countries. Proview China and Proview Taiwan shared the same chief executive officer (CEO), and both were owned by the same parent company. In 2009 an obscure UK company named IP Application Development (note the acronym) entered into a trademark assignment agreement with Proview Taiwan to purchase its worldwide trademark rights to the IPAD marks for \$55,000. During the negotiations, a representative of the UK company allegedly said that the only reason it wanted the marks was because it was an acronym of the UK company name. As soon as the UK company owned the marks, it assigned them to Apple for \$15.

A US lawsuit claimed that Apple, through its disguised agent and transfer vehicle in the United Kingdom, had misrepresented facts in the purchase transaction with Proview Taiwan with respect to intended use of the mark and had fraudulently induced the sale. Although purchasing on behalf of an undisclosed principal or using some other transfer vehicle is common industry practice, agents should not deviate from the script. It is a lesson to provide clear instructions to agents about what they may and may not represent.

A separate Chinese lawsuit claimed that any deal, if valid, covered only marks owned by Proview Taiwan, and not the two IPAD marks owned by Proview China, which Apple was infringing by using the term 'iPad' in China. In the Chinese litigation, Apple argued that the deal was a "collective transaction" and the Proview entities were not honouring the agreement. Apple lost in the lower courts. Although the decision was appealed, Chinese officials began removing iPads from retail stores. With the entire Chinese market at risk, the \$60 million settlement payment was quickly agreed.

Apple's due diligence in the Proview Taiwan transaction with respect to title and ownership of the IPAD marks in China may have been incomplete. Did Apple not search the China Trademark Office records and chains of title to determine precisely which Proview entity owned the China registrations? There is another practical lesson to be learned here. In China, in particular, many company affiliates have nearly identical names. This was certainly the case with the two Proview entities, and Apple's counsel may have mistakenly

believed that both were somehow the same entity since the names sounded the same and the companies shared a CEO. In reality, Proview Taiwan and Proview China were separate owners of separate registrations in separate countries, requiring each to execute a different assignment agreement to divest its rights. Proview China was never a named party to the Proview Taiwan agreement.

The unfortunate Apple-Proview situation brings back memories of an older but similar due diligence story. Trademark counsel may recall stories about the ROLLS ROYCE marks. Volkswagen acquired Rolls Royce's automotive division for a very large sum, even by today's standards. But apparently the Volkswagen team did not check out who owned the famous ROLLS ROYCE trademarks. In fact, the marks were owned by a different company, Rolls Royce's engine division. The marks were licensed to Rolls Royce's automotive division under a licence that terminated when the automotive division was acquired. Volkswagen took possession of the Rolls Royce automotive factories, but could never sell cars bearing the ROLLS ROYCE marks.

The point of these stories is twofold. First, due diligence, or lack thereof, dramatically influences the negotiating leverage of the parties, the value and reasons for a deal and the likelihood of future litigation. Second, if mistakes in due diligence can happen to Apple and Volkswagen and their army of lawyers, any trademark counsel could just as easily fall into a trap if he or she is not careful and attentive.

Therefore, listed below are 29 thoughts about best practices, strategies, common errors, contractual must-haves, practice tips and insights in the due diligence of trademark transfers. These thoughts are based on lessons learned in the trenches and are presented as a practical checklist for your next transaction. Although the issues addressed are meant to be as comprehensive as possible, the application of each depends on the nature and size of the transaction. One might analyse all of these issues for the acquisition of a crown jewel, but only several for a simple sale.

29 thoughts about trademark transfers

1. Begin the process early

Trademark counsel should take a leadership role and add value by identifying and requesting what is needed for due diligence as soon as possible. Remedies and fixes can be slow, so they must be put in place long before closing, especially if they are material. However long you think it will take to complete the due diligence, multiply it by three. This will help you to manage client expectations.

Whatever you do, do not leave the due diligence to transactional lawyers, who often do not understand trademark law or who will expect trademark counsel to review the trademark schedules hours before closing or, worse, post-closing.

2. Know the deal

Learn the background information, history and facts about the deal, including the respective ultimate business reasons, motivations and goals driving the transaction for all parties.

- What is the reason, nature and structure of the transaction?
- Is it a simple assignment of marks?
- Is it a stock purchase? In a stock purchase transaction, ownership and control of the target's outstanding shares of capital stock

change, while its assets, including trademarks, remain with the target. Despite the fact that only the outstanding shares of stock are being transferred from a seller to a buyer, the stock purchase transaction could require consent of a trademark licensor if the licence agreement contains change of control provisions or deemed assignment provisions triggered by a sale of the target's shares of stock.

- Is it a merger? If a merger, which entity will continue as the survivor of the merger based on the selected merger structure, and will the merger structure impact on whether any of the trademark agreements will be vested in the surviving entity without the consent of a third party? Mergers are commonly structured in one of three ways:
 - a direct merger between the acquirer and the target (where the acquirer continues as the surviving entity);
 - a merger of the target into a merger subsidiary of the acquirer, with the acquirer's subsidiary continuing as the surviving entity (a 'forward triangular merger'); or
 - a merger of the acquirer's merger subsidiary into the target, with the target continuing as the surviving entity (a 'reverse triangular merger').
- The merger structure affects whether the consent of third parties will be required under third-party agreements or licences. Forward triangular mergers have long been recognised as constituting an assignment of a contract, and one recent Delaware case recognised that a reverse triangular merger may, under certain circumstances, also constitute an assignment by operation of law and trigger consent requirements under anti-assignment clauses. Regardless of the structure, the merger could also trigger other consent requirements where, for example, a trademark licence requires third-party consent to a change of control.
- Is it an asset purchase? In an asset purchase transaction, only those assets, including trademarks, specifically identified for sale in the definitive asset purchase agreement are transferred from the seller to the buyer. In such a transaction it is especially critical that the buyer identifies during the due diligence process the specific trademarks that it wishes to purchase and ensures that the asset purchase agreement accurately describes the trademarks to be acquired by the buyer or retained by the seller. This is often accomplished by a detailed listing in applicable disclosure schedules of the acquired trademarks.
- Are there carve-outs for retained marks, jurisdictions or uses?
- Are trademarks critical or material to the deal, or to the buyer's business?
- What are the possible obstacles to closing, including obtaining consent of third parties with respect to critical trademarks, to the extent (depending on the deal structure) that consent is needed under any applicable anti-assignment or change of control provisions under licence agreements?
- How are the parties allocating liabilities and risks?
- What is the value of the deal?
- What is the buyer's appetite for risk?
- What is the budget for due diligence?

3. Know the buyer and the seller

- Learn the background information, histories and facts about the companies involved.
- Read any available public information about the seller, such as websites and annual reports, for information about the seller's marks.

- What parents, subsidiaries, divisions or affiliates are involved or affected? Do any affiliates share ownership of the marks with the seller?
- What are the buyer's expansion plans related to the seller's marks, including new goods, services, trade channels and geography?

4. Know the team

- Who are the trademark, branding and marketing contacts for the seller? And for your client? These contacts can make your life easy or difficult, so it helps to create a team atmosphere, even if you are on opposite sides.
- Who is responsible for responding to your requests to the seller for information and documents related to the seller's marks? Who actually gets it done? As every paralegal knows, the two are not often the same.

5. Know the protocols

- How are requests to the seller for information and documents about the seller's marks submitted?
- Who may review documents provided by the seller about the seller's marks?
- What are the confidentiality restrictions, if any, related to pre-closing publicity?
- How will documents be exchanged? For example, in a corporate acquisition scenario, who sets up the virtual data room (VDR)? A VDR is a secure online platform for mutual distribution and exchange of confidential documents and information. A VDR is highly recommended for large corporate acquisitions; they save time and money.

6. Know the deadlines

- By when must due diligence be completed?
- What is the closing date?
- What are the post-closing deadlines?

7. Know the universe

It is mandatory that an audit or inventory be taken of all the trademarks and rights involved, including those marks that are used but not registered, those marks that a trademark owner allows others to use and the goods marketed under the marks. The audit and inventory process will involve drafting questions and document requests for the seller, reviewing and cross-checking US and foreign trademark office databases, identifying the trademarks used by companies acquired by the seller, speaking with representatives and brand managers and reviewing samples of all products, marketing materials, press releases, packaging, advertising, websites and social media pages. Collect it all.

- Request, obtain and review schedules of all US, state and foreign registered marks.
- Request, obtain and review schedules of all US and foreign unregistered marks.
- Request, obtain and review schedules of any other US and foreign marks owned and/or used by the seller.
- Cross-check the US and foreign trademark databases.

“ If there are trademarks used by the seller which are actually owned by an affiliate, these trademarks should be assigned to the seller in a separate assignment agreement, recorded before closing and included on the schedules of the seller’s marks ”

- Request, obtain and review samples of all products, marketing materials, advertising, press releases, news articles, packaging, websites and social media pages related to or using the marks.
- Request, obtain and review opinions of counsel about clearance and availability of the marks. If you represent the seller, keep in mind that if you provide opinions of counsel, but the deal does not go through, you may have waived attorney-client privilege.
- Request, obtain and review evidence of use of the marks.
- What goods and services are used under each of the registered and unregistered marks?
- Does the seller own the marks it claims to own? If not, does the seller have a licensed right to use the marks?
- Are the marks used appropriately as adjectives?
- Are proper notice markings used (eg, ® for registered marks)? Proper markings can defeat defences of innocent infringement.
- What terms in marks are disclaimed?
- What goods or service descriptions in applications or registrations have express restrictions?
- Has the seller complied with US Patent and Trademark Office (USPTO) requirements, formalities and deadlines for the marks?
- Are the marks enforceable?
- Can the marks be registered or renewed?
- Can the marks be used?
- Are any marks an acronym or do any have particular industry meaning?
- Does any mark have any adverse or offensive meaning, in either sound, transliteration, translation or slang? This is a common issue in Asian countries.
- What procedures are in place for documenting the creation of trademark rights?
- What are the seller’s past and current filing strategies?
- What are the current clearance procedures?
- How are trademark records maintained?
- Are there guidelines for proper trademark use? Are they followed?

- Are key jurisdictions covered? If the seller’s marks are not protected in a key jurisdiction, this is often a red flag of problems in that country. Find out why the seller decided not to file in any key jurisdictions.
- Request, obtain and review copies of all renewal filings.
- Is a watching service used to catch unauthorised third-party use?
- What are the history, sophistication level and scope of the seller’s trademark enforcement programme? Is the seller aggressive or passive in policing its marks? A failure to enforce may weaken the strength of the marks and the ability to enforce in the future.
- Are any marks recorded with Customs? Customs recordation is important in industries prone to counterfeiting.
- Which marks (registered or unregistered) are material enough to warrant new full clearance searches to confirm validity, and in which jurisdictions?
- Are there any limitations on the buyer’s ability to expand the marks to other goods, services, uses or jurisdictions?
- Interview the seller’s trademark counsel and brand managers about the marks and the questions above, especially to clarify ambiguities.

8. Know the docket

- Request, obtain and review a docket report of all US, state and foreign registered and unregistered marks, and of any other marks owned or used by the seller.
- What are the upcoming prosecution and renewal/maintenance deadlines?
- Who will handle prosecution and renewal/maintenance deadlines during transition?

9. Office actions

- Request, obtain and review a schedule of all outstanding US and foreign office actions related to the trademarks and the licensed trademarks.
- Request, obtain and review copies of all relevant documents about all outstanding US and foreign office actions related to the trademarks and the licensed trademarks.
- Which applications have been refused and why?
- Cross-check the US and foreign trademark databases.
- Request, obtain and review opinions of counsel about office actions. If you represent the seller, keep in mind that if you provide opinions of counsel, but the deal does not go through, you may have waived attorney-client privilege.

10. Domain names

Domain names should be included in the trademark due diligence process because they often incorporate trademarks. A common problem is that domain names of a seller may be registered to an individual employee, ex-employee or even a contractor. All relevant domain names should be transferred to the seller, as the record owner, before closing. Another common problem is that third-party domain names may incorporate the seller’s trademarks.

- Request, obtain and review a schedule of all domain names owned and used by the seller, including those related to foreign registries.

- Cross-check the WHOIS database for owner information of domain names.
- Request, obtain and review a schedule of all third-party use of domain names that incorporate the seller's trademarks.
- Request, obtain and review a schedule of all domain name agreements related to the trademarks.
- Request, obtain and review copies of all domain name agreements related to the trademarks.
- What are the domain name renewal deadlines?
- Domain name ownership issues should be cleaned up before closing. After closing, the seller has less motivation to find and lean on the employees, ex-employees or contractors necessary to make the transfers.

“ The impact of giving a covenant not to sue in a federal court declaratory judgment trademark litigation is currently an issue to be decided by the US Supreme Court ”

11. Social media

Social media handles should be included in the trademark due diligence process because they often incorporate trademarks. All relevant social media handles should be transferred to the seller before closing. Another common problem is that third-party social media handles may incorporate the seller's trademarks.

- Request, obtain and review a schedule of all social media handles owned and used by the seller (eg, Facebook and Twitter).
- Request, obtain and review a schedule of all third-party social media handles that incorporate the seller's trademarks.
- Cross-check the schedules against your own research. Certain online services will search for trademarks used as handles on known social media sites (eg, www.knowem.com).

12. Chains of title, recording and validity of assignments

Verify the chain of title for each mark in the portfolio. This may be a time-consuming process, but it should not be overlooked. Almost 20 years ago, on my first day as a trademark lawyer, my first task was to verify chain of title for a trademark portfolio, one day before closing. Not surprisingly, I was the last one in the office that night. The point is, when it comes to checking title and assignments, patience is a virtue. In the United States, USPTO assignment data is mixed up and garbled with name changes, mergers, security interest grants and releases, so it takes time and an investigative mind to figure out just what happened, when and by whom, and to build a reliable chronology.

In the United States, there are several important rules and guidelines regarding assignments.

- Any assignments of marks must include the goodwill associated with the marks; otherwise the assignments are invalid. The inclusion of goodwill is always required, even if the marks are purchased from a bankruptcy estate.
- Acknowledgment (notarisation) of a signature is *prima facie* evidence of execution. It is therefore highly recommended that all assignment signatures be notarised. If the validity of the assignment or execution is contested in litigation, you are unlikely to be able to locate the assignor a decade later to execute an affidavit or come to court to testify.
- Recordation of an assignment does not mean that the assignment is valid. The USPTO does not examine the assignment agreement.
- Recordation of an assignment is not mandatory for an assignment to be effective; however, it is highly recommended.

An assignment is void against any subsequent purchaser for valuable consideration without notice, unless the assignment is recorded at the USPTO within three months of the date of the assignment or before the subsequent purchase.

If there are trademarks used by the seller which are actually owned by an affiliate, these trademarks should be assigned to the seller in a separate assignment agreement, recorded before closing and included on the schedules of the seller's marks.

For any companies acquired by the seller, confirm that the acquisition agreements have a schedule of assigned trademarks. If any trademarks are found in the audit or inventory that are not included on relevant schedules or not covered by other assignment language in master agreements, executed assignments should be obtained and recorded before closing.

- Request, obtain and review all assignment agreements (and schedules) related to marks assigned to the seller.
- Do assignment agreements transferring marks to the seller include the goodwill associated with the marks? Do they include accurate schedules?
- Are there typographical errors in the assignments?
- Are any trademarks used by the seller or included in the sale owned by an affiliate or other party?
- Are there gaps or other errors in the chain of title?
- Are any assignments to the seller 'conditional' assignments (eg, conditioned on the happening of a future event in the future)? In such cases, the marks have not yet been assigned and may never be assigned.
- Who is responsible for correcting errors in the chain of title or assignments to the seller? Any errors should be fixed and corrective filings recorded before closing, so that the seller's right to transfer the marks cannot be disputed. However, a common problem is that assignors which assigned marks to the seller can no longer be located to execute a corrective assignment.

13. Corrective assignments

Sometimes assignments contain errors that need to be fixed. Minor typographical errors in recordation cover sheets or underlying documents can usually be corrected by an assignee alone with the filing of a corrective cover sheet or an accompanying affidavit. For more substantive errors, if the assignor can be found, it is a matter of convincing the assignor to help to execute an entirely new assignment document. Such a new document should always expressly state that it is *nunc pro tunc* (Latin for 'now as if before') and effective retroactively, as of the date of the original assignment.

Unfortunately, assignors disappear. What do you do if the assignor is deceased or cannot be located, or if no one can sign a new assignment agreement on behalf of the assignor?

In the United States, corrections to substantive errors within a recorded assignment agreement (eg, to correct or change terms or language in the assignment agreement) are typically next to impossible to accomplish without the help of the assignor. The USPTO is not in the business of rewriting contracts. Should the assignee wish to try to modify an assignment agreement substantively without the help of the assignor, the assignee of the application or registration should file with the assignment branch of the USPTO a corrective cover sheet with an accompanying affidavit explaining the facts about the substantive error, the inability to locate the assignor, the intent of the parties and the correction. If the assignment branch denies the request to make a substantive change in the document, as it probably will, the assignee may file a petition with the director of the USPTO. However, unilateral petitions to correct substantive matters in underlying recorded documents are rarely granted.

Circumstances can be more difficult in the case of a void assignment where the assignor can no longer be located to execute a new document (or refuses to execute a new document). In a void assignment, the consequence might be that, in fact, nothing was assigned. Consequently, the assignor could be deemed to retain rights to the mark. The assignor, by no longer using the mark, arguably had no intent to resume use and abandoned the mark. In that situation, it could be asserted that the assignee's rights with respect to priority never started until the assignee's own *bona fide* use of the mark. In the window of time between the void assignment and the assignee's own use, a third party may have already started use, and such third party could argue that it obtained priority.

14. Security interests

Security interests against trademarks are perfected under the Uniform Commercial Code, not by USPTO recordation.

- Request, obtain and review a schedule of all security interests, financial liabilities, liens and encumbrances related to, against or on the seller's marks, and/or obtain confirmation that no such liens exist.
- Request, obtain and review copies of all security interests, financial liabilities, liens, encumbrances and similar agreements related to, against or on the seller's marks, and obtain copies of any related documents.
- Cross-check both USPTO records and state UCC-1 filings.
- Who is responsible for filing the releases and where must the releases be filed?
- Will the buyer assume any security interests, financial liabilities, liens or encumbrances related to the seller's marks?

- Will releases be filed before or after closing? The buyer should require that all releases be obtained and recorded before closing, when the seller has an incentive to chase the lien holders to execute releases.

15. Intent to use problems

In the United States, intent to use applications cannot be assigned until an amendment to allege use or a statement of use is filed, with a specimen evidencing use. The only exceptions are when the assignee is a successor of the applicant's business, or when the assignment is part of a transfer of the entire portion of the applicant's business to which the mark pertains. The purpose of this rule is to bar trafficking in trademarks (ie, the buying and selling of unborn marks). If an intent to use application is assigned in violation of the rules, both the assignment and the application are void. As a practice tip, if you need to transfer an intent to use application and the transaction does not fit squarely within the exceptions, consider making the intent to use assignment conditional instead of a present assignment. In other words, make the transfer depend on the happening of an event in the future (eg, on default to the lien holder or the filing of a statement of use).

- Did the seller obtain any trademarks in violation of the no intent to use assignment rule? If yes, both the assignment and the application are void.
- Do any intent to use applications to be transferred by the seller in the current transaction violate the no intent to use assignment rule?

16. Non-use problems

Under US law, there is a presumption of abandonment of a trademark if it has not been used for three consecutive years. Moreover, under US law, any mark is deemed abandoned if use is discontinued with an intent not to resume use.

- Is there continuity of use of the seller's marks?
- Are any of the seller's US or foreign marks subject to cancellation for non-use?
- Have any of the seller's US or foreign marks been abandoned? Was abandonment intentional or inadvertent? Is the abandonment material?
- What abandoned US or foreign marks should be refiled?

17. New trademark searches

For those marks found in the audit or inventory that are unregistered, consider conducting full trademark searches to confirm that the marks are not potentially violating the rights of third parties. For those unregistered marks that are used (or will be used) internationally, the jurisdictions of use and intended use outside the United States should be searched. Depending on the results of these searches, investigations of certain third-party trademarks may need to be conducted in order to assess potential legal exposure. Certain marks in the inventory may also need to be phased out or trademark rights secured to minimise exposure to trademark infringement claims.

Likewise, and just as importantly, full searches should be performed and analysed for registered marks that are 'material' to the deal in the most important jurisdictions. Based on the full search results, further investigations about such registered marks may be warranted.

18. New applications

For those unregistered marks that have passed the search and clearance process, make a list of those important to the business for which new trademark applications in the jurisdictions of use (including future markets) should be considered. As trademark lawyers know, trademark registrations provide significant advantages, rights and benefits beyond mere common law rights, especially in litigation. Think ahead and recommend to your client registration of important marks in countries where the business plans to expand, before competitors or other third parties file for conflicting marks.

19. Trademark licences

Licences are often named as such, but they also lurk in the shadows of other agreements, such as settlement, distribution and joint venture agreements. So be sure to request all documents related to the marks.

Any licensed use of marks owned by the seller ('outbound' licences) and any licensed use of marks to the seller by third parties ('inbound' licences) discovered during the audit or inventory which lack a written licence agreement should be memorialised in a proper written licence agreement.

Moreover, failure by a licensor to exercise quality control over a licensee's use of a mark can result in what is called a naked licence and an abandonment of the licensed mark. Licences should therefore be reviewed for adequate quality control language. But what matters most is not the presence of the language, but the exercise of quality control over the licensee's goods or services under the mark. If a cost-effective quality control programme does not exist to ensure that the licences are properly maintained, such a programme should be established as soon as possible.

Pay special attention in licences to the protection of key deadlines (eg, renewal or royalty obligations) and to any other key provisions that protect or obligate the client. In particular, the assignment and change of control sections of each licence must be meticulously scrutinised so that the buyer can satisfy any conditions for assignment of the licence to the buyer, or so that the buyer at least knows in advance what agreements will not transfer.

- Request, obtain and review a schedule of and copies of all documents related to the seller's marks.
- Request, obtain and review a schedule of all US and foreign licences of marks owned by the seller, including any agreements that contain licences.
- Request, obtain and review a schedule of all US and foreign licences to the seller of marks owned by third parties, including any agreements that contain licences of such marks.
- Request, obtain and review copies of all US and foreign licences of marks owned by the seller, including any agreements that contain licences.
- Request, obtain and review a description of the procedures and protocols used by the seller to monitor quality control of licensed marks.
- Request, obtain and review copies of all US and foreign licences to the seller of marks owned by third parties.
- Request, obtain and review instances of actual evidence of monitoring of quality of the licensee's goods or services under the licensed mark.
- Request, obtain and review a schedule of recorded licensees and registered users at trademark offices against any mark.
- Request, obtain and review copies of all recorded licences and

registered user agreements at trademark offices against any mark.

- Can the licensed rights be terminated at any time by either party to the licence?
- What is the licence term and what are other deadlines? For those licences soon to expire, are renegotiations planned?
- Are the licences exclusive or non-exclusive?
- Can the licensed rights be sub-licensed or further assigned?
- Are the correct goods or services licensed?
- Are the correct jurisdictions included in the licensed territory?
- Are the correct marks licensed?
- What are the payment and reporting obligations under the licence?
- What are the representations, warranties, indemnities or other obligations of the parties under the licence?
- Are there non-compete restrictions in the licence?
- Do any licences to the seller terminate upon change of control or have change in control or anti-assignment restrictions?
- Can the licences to the seller be assigned to the buyer without the licensor's consent?
- If licensor consent is required, who is responsible for obtaining consent?
- Will the licensor consent or withhold consent? It is recommended that consent from the licensor be obtained before closing. Moreover, if the licensor is a competitor of the buyer, a withholding of consent should be anticipated.
- Are any licences really assignments of marks? Even if an agreement is titled a licence, the courts will look at its actual legal effect.

20. Disputes

Nobody wants to buy a lawsuit. Request from the seller an identification of all past, current and threatened claims, demands, litigations and arbitrations related to the trademarks, the licensed trademarks and the domain names, both US and foreign, and all related documents. In the United States, also cross-check the US Trademark Trial and Appeal Board (TTAB), federal court (PACER) and Uniform Domain Name Dispute Resolution Policy (UDRP) arbitration service provider databases. In foreign jurisdictions, have local counsel cross-check the equivalent as needed.

If you represent the seller, keep in mind that if you provide opinions of counsel about disputes, but the deal does not go through, your production may have waived attorney-client privilege. So make sure the deal has a high likelihood of closing before providing opinions of counsel about disputes. If opinions are provided and the deal closes, there is an argument that privilege is not waived because the buyer steps into the shoes of the owner of privilege.

- Request, obtain and review a schedule of all US and foreign past, current and threatened claims, demands, litigations, arbitrations, oppositions, cancellations and court proceedings related to the trademarks, the licensed trademarks and the domain names.
- Request, obtain and review a copies of all US and foreign past, current and threatened claims, demands, litigations, arbitrations, oppositions, cancellations and court proceedings related to the trademarks, the licensed trademark, and the domain names.
- Cross-check the TTAB, PACER and UDRP arbitration service provider databases.
- Are the same or similar trademarks being used by third parties?
- What is the risk of infringement, unfair competition, false advertising, dilution or other claims by third parties?
- Have any cease and desist letters or threats about the trademarks or domain names ever been sent or received by the seller?
- Request, obtain and review all cease and desist letters.

“ The best practice is to have a separate assignment agreement executed for each country ”

- Request, obtain and review opinions of counsel about disputes (subject to caution above about waiver of attorney-client privilege).
- What is the materiality of asserted claims?
- What are the merits of the claims?
- What is the likely outcome of the dispute?
- When is the claim likely to be resolved?
- What is the likelihood of settlement?
- What is the procedural stage of the claim?
- What is the likelihood of similar foreign claims?
- How much has the dispute cost to date?
- What is the expected future cost of the dispute?
- What are the plaintiff's available remedies and defendant's worst-case exposure?
- Should the seller indemnify the buyer for the dispute?
- Is insurance coverage for the dispute available?

21. Damages for past infringements and binding effect of past injunctions

An assignee steps into the shoes of the assignor. Therefore, an assignor generally divests all of its rights and cannot recover pre-assignment damages from an infringer, unless such a right is expressly stated in the assignment agreement. If you represent the seller, consider whether you can negotiate to retain such a right, especially if litigation is ongoing and the seller has invested significant time and money in the litigation. Likewise, an assignee is subject to pre-assignment limitations, restrictions and judgments on the marks, such as prior injunctions.

- Does the transaction contemplate the seller retaining the right to sue for past infringements of the seller's marks and collect damages?
- Does the buyer accept liability for past infringements and damages caused by the seller's use of marks?

22. Settlement agreements

- Request, obtain and review a schedule of all relevant documents about past, existing and contemplated US and foreign settlements and settlement agreements related to any claims, litigations and arbitrations involving the trademarks and the licensed trademarks.
- Request, obtain and review copies of all relevant documents about past, existing and contemplated US and foreign settlements and settlement agreements related to any claims, litigations and arbitrations involving the trademarks and the licensed trademarks.
- Do the settlement agreements contain any representations, warranties, restrictions, assignment limitations, indemnification obligations or covenants not to sue?
- Do the settlement agreements contain any change of control or transfer consent provisions? It is recommended that consent to transfer be obtained before closing.

23. Co-existence agreements, consents to use and covenants not to sue

Co-existence and consent to use agreements can restrict trademark use, registration, jurisdictions, appearances, fields, goods or services. Covenants not to sue restrict enforcement actions. If the seller has given away the farm with respect to third-party use, or agreed to live in a box, the buyer needs to know.

The impact of giving a covenant not to sue in a federal court declaratory judgment trademark litigation is currently an issue to be decided by the US Supreme Court. Nike sued a company doing business as YUM for likelihood of confusion with the product configuration of Nike's AIR FORCE 1 shoe, for which Nike owned a federal registration. YUM retaliated by counterclaiming with a declaratory judgment action to cancel Nike's product configuration registration on the basis that the configuration was in the public domain. Risking cancellation of an important registration, and before any decision on the merits, Nike sought to settle the case by unilaterally giving YUM a covenant not to sue based on the Nike registration. Instead of dismissing its federal court declaratory judgment action, YUM continued with its declaratory judgment counterclaim to cancel the Nike registration. However, the district court dismissed the case, claiming it no longer had subject-matter jurisdiction after Nike's covenant not to sue YUM because there was no longer a "case or controversy". The Second Circuit affirmed. YUM appealed to the Supreme Court, which will hear oral arguments on November 7 2012.

- Request, obtain and review a schedule of all US and foreign co-existence and consent to use agreements related to the seller's marks.
- Request, obtain and review copies of all US and foreign co-existence and consent to use agreements related to the seller's marks.
- Do the co-existence or consent to use agreements contain any representations, warranties, restrictions, assignment limitations, indemnification obligations or covenants not to sue?
- Do the settlement agreements contain any change of control or transfer consent provisions? It is recommended that consent to transfer be obtained before closing.
- Are any consents to use really assignments of marks? Even if an agreement is titled a consent to use, courts will look at its actual legal effect.

24. Opportunities to exploit or extend marks

What are the opportunities to maximise and exploit the value of the seller's trademarks post-closing – for example, by seeking royalty-based licensing and co-branding opportunities, and/or extending the brands to additional goods and services where significant profit potential is possible?

25. Representations and warranties

Representations and warranties reflect the allocation of risk about future

problems concerning the integrity and validity of the marks transferred. If you represent the buyer, be sure you understand the scope and reliability of the seller's representations and warranties about its marks, especially with respect to any liabilities associated with such marks.

Naturally, the buyer wants broad warranties (eg, accuracy, exclusive ownership, title free and clear of all liens or restrictions, right to use, validity, no pending or threatened claims or litigation, non-infringement of third-party rights, no third-party conflicts, all marks necessary for operation of the business are transferred, all licences related to marks are valid and in force, all marks have been continuously and properly used and all registrations have been renewed). Conversely, the seller wants no warranties (eg, 'as-is'), limited warranties (eg, to the extent of the seller's knowledge), disclaimers of warranties, indemnification caps or other specific exceptions.

An important maxim to remember about negotiating representations and warranties is that if you bring the clouds, it can rain on you too. For example, in one international transaction in which I represented the seller, the buyer's counsel presented evidence that poked so many holes in the seller's portfolio that I had to nod to his research and the clouds on title discovered. But that left my client with no choice but to sell the entire portfolio. No warranties was not part of the buyer's plan, but thanks to the buyer's counsel, those were the ultimate terms of the deal.

26. Licensing back to assignor

- Does the seller's company name include the seller's marks? Has the seller agreed no longer to use its company name?
- Will the seller require a licensing back to use the marks or company name during a phase-out period while it transitions to a new company name, new trademarks or new domain names, and/or exhausts existing inventory?
- If an assignor lacks a licensing back and continues to use the marks assigned after rights are divested, it is a breach of the assignment contract and infringement.

27. Know the foreign rules

Different rules about trademark priority exist in different jurisdictions. Some countries are first to file, while others are first to use when determining priority. In first to file countries, unless a mark is already well known there, prior use is irrelevant for priority. For assignments, some countries may require the use of special forms, the statement of a value of the property or legalisation before filing. Others require an apostille.

For example, there are many traps in China. One is that similar marks of the assignor for similar goods or services must all be assigned simultaneously; otherwise, the assignment will be rejected. Another is that both the assignor and assignee are required to execute the assignment application form jointly and provide identification document; otherwise, again, the assignment will be rejected. Finally, an assignment is not valid in China until it is finally approved by the China Trademark Office – a process that takes about a year. It is best not to slow-boat recording in China.

The best practice is to have a separate assignment agreement executed for each country. No matter what the foreign issue, retain local counsel as soon as possible to assist you with special issues and due diligence in foreign jurisdictions, and to provide you with the local assignment requirements. You do not want assignments rejected and unrecorded for lack of compliance with simple formalities.

28. Post-closing considerations

- Who is responsible for recording the assignments?
- Who is responsible for paying for any taxes, transfer costs or assignment recording costs?
- Who is responsible for fixing chain of title problems not resolved before closing?
- Who is responsible for obtaining releases of security interest and liens not released before closing?
- List all parties from which consents are still required after closing for agreements to be assigned to the buyer.
- If you represent the buyer, include a clause in the agreement that requires the seller to assist with effectuating assignments by providing and signing any necessary documents post-closing.
- If you represent the buyer, include a clause in the agreement that requires the seller to assist with defending the marks post-closing and with defending past and future infringements.

29. Due diligence memorandum

The due diligence memorandum is a summary of the inventory and information collected, your analysis of the information and the action required or recommended both before and after closing. It should include upcoming deadlines and identify problems, especially material obstacles, impediments, risks, liabilities, exposures and other relevant issues that can shift leverage or price in the transaction, or affect the buyer's ability to use and grow the marks. It should also provide strategies for dealing with and resolving, or at least mitigating, these issues, such as changing the number of marks included, using a purchase price hold back with escrow payments over time, extending the time periods and amounts for indemnifications, modifying representations and warranties, adding covenants or including other risk allocation devices.

Conclusion

Be a hero, not a bystander. Trademark due diligence – or lack thereof – dramatically influences the leverage of the parties, the value of the deal, the reasons for the deal, the ability of the buyer to use and enjoy the marks and the likelihood of future litigation. Problems are more likely to be resolved before closing, and to the parties' satisfaction, if they are caught early. If you follow these steps, best practices, strategies and checklist questions, you will be well on your way to avoiding the most common errors – not to mention \$60 million settlements.

The counsel at Apple who prepared the binder in my negotiations was a hero. The hard work paid off when the binder balanced the scales and brought the seller down to earth. When our meeting was over and the sunset glowed on Apple's Cupertino campus, Jobs eased into his Ferrari with nothing in his hands but his keys – and new trademarks for Christmas. [WTR](#)

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