Podcast Transcript

The Power Play of IP: The Strength of Strategists in Transactions

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Lee: An effective IP strategy demands specialists who understand both IP law and deal mechanics. The IP specialist must be able to identify assets, assess chain of title, flag risks, and ensure that contracts, licenses, and disclosures align with the transaction structure. Like all specialists drawn from practice areas outside the core M&A team, they must also understand the impact of deal structure, purpose, and entities on their analysis. So how do parties in a transaction make sure they're getting what they want while avoiding pitfalls? In BakerHostetler's third annual IP Perspectives Thought Leadership Piece, BHIPP, the Intellectual Property Practice Group highlights myriad IP-related topics that are at the forefront of industry developments and current challenges and trends. I'm Leeann Lee, and you're listening to BakerHosts.

On today's episode, we discuss The Power Play of IP: The Strength of Strategists and Transactions. To provide us with insight into this topic, we have Brendan Clark, a partner in the Intellectual Property Group at BakerHostetler and a member of the IP Technology team. Brendan is also the IP leader for the Cleveland office. Welcome to the show, Brendan.

Clark: Thanks so much for having me. It is great to sit down and have an opportunity to try and squeeze this rather complex series of issues and concepts into a bite-sized morsel for our listeners here.

Lee: Absolutely. When we talk about IP diligence in an M&A deal, what does that actually mean?

Clark: That is a great question, and there is a lot to it there. So, at a high level, when we talk about diligence, we're talking about allocating risk, ideally reducing it by understanding what you're actually buying and where the problems might be hiding. To achieve this allocation, deal teams often employ specialists, attorneys drawn from practices like tax, data privacy, and what we're talking about today, IP. IP diligence involves an IP specialist performing that same risk allocation exercise but focused on the intangible assets of the business. Those intangibles include things like inventions, branding, publications, confidential information, software, and data. And with those intangibles, we're looking at both sides of the coin. That is what value those assets bring to the deal and what risks they introduce.

The important point is that every company has IP and interfaces with third-party IP, whether they think of themselves that way or not. Even if the buyer doesn't view the seller's IP as a primary value driver, ignoring IP risk can still blow up the deal. You can have a perfectly sound transaction on paper and walk into massive legal exposure if the IP issues are examined. In practice, IP diligence means looking at patents, trademarks, copyrights, trade secrets, software, data, etc., not just as items on a schedule, but as flows of rights. A company may obtain rights to IP in a variety of ways, and even if they own it outright, there is still a chain of title to inspect. So, we ask questions like, who created those IP rights? Were they employees or contractors? Are there third-party licenses involved? Do those rights survive closing? So, do we have and will we keep what we need for this business's ordinary or planned course? And does anyone else have a claim on what the business owns or uses?

That leads us to thinking about disputes, not just what is already pending, but what could happen after closing. IP litigation is expensive, and sometimes the very act of acquiring a company makes it a more attractive target for an infringement demand. The last thing anyone wants is to close a deal and immediately face an injunction or a seven-figure defense bill. Also, because IP touches almost everything, IP diligence is inherently cross-practice. HR issues affect ownership. Privacy issues affect data and software. Commercial contracts can hide restrictions or obligations that don't show up anywhere else. So, the IP specialist, like all specialists, need to be an integrated part of the team as opposed to someone who's walled off from what other practices bring to the deal.

So, IP diligence ultimately can't be a box-checking exercise. The goal is to make sure the buyer actually gets what they think they're paying for and that the risks are understood, priced, and allocated appropriately.

Lee: So, is it fair to say then that IP diligence is a specialization like patent litigation or trademark prosecution?

Clark: It is a specialization, but not in the traditional siloed sense. On one hand, it absolutely requires specialized expertise. On a single deal, I might be looking at a multinational patent and trademark portfolio, a software platform, a trade secret dispute, and IP provisions buried in commercial agreements. You need real IP experience across a variety of IP specialties to do that well. But on the other hand, you can't approach it with a narrow lens. One of the things that I enjoy most about IP diligence is that it draws on all facets of IP practice and then places them in a deal context. What is critical in one transaction might be completely immaterial in the next, and recognizing those differences can be challenging.

Outside of the largest deals, where the target has sophisticated in-house legal help, discrepancies aren't uncommon, but a specialist who treats every issue as deal-breaking is often suffering from tunnel vision. And this is where having an IP attorney versed in deal work, not only IP work, matters. Even well-intentioned IP lawyers can drive up costs or complexity by raising red flags over problems that can be contained or pushing for exhaustive schedules or overly protective provisions that don't actually address things that are material to the transaction.

That said, while most deals get to yes, sometimes there is a fundamental IP problem that can kill a deal. In those situations, judgment matters as much as the technical skill. The issue has to be identified, explained clearly to people who are not IP specialists, and put in context so the deal team and the client can make an informed decision. So yes, IP diligence is specialized, but it demands breadth, business awareness, and an understanding of deal mechanics. It is not enough to know your IP. You have to know how the IP fits into the transaction.

Lee: That makes sense. And now what are the biggest blind spots when deal teams don't have someone who understands both IP and deal mechanics?

Clark: Biggest is a tough one here. Really, it is a lot of little things that can become big problems if not scrutinized. Deals without IP counsel do run into problems, but so do deals with IP counsel who lack breadth and M&A experience.

So, starting with deals that lack dedicated IP counsel. You'll sometimes see issues understood by junior IP associates getting missed. For example, a non-IP attorney might exclude patents from schedules because they thought they were expired without checking for term extension or didn't consider the possibility of obtaining past damages. They might not notice a consent agreement in a trademark file that potentially limits future expansion. They might not think to ask about open-source software components that could impact the value or exclusivity of company internal software. You might also see technical errors in the agreements like trademark assignments that don't recite goodwill or agreements that would automatically attempt to assign an intent to use application as financing collateral. These are the kind of issues that an IP attorney with experience in the relevant discipline would catch quickly. But the inverse is also true.

A narrowly focused IP attorney without deal experience can miss important transactional issues. They might not consider how deal structure matters with arriving at final schedules and assignments. It is easy for IP attorneys without licensing experience to overlook change of control provisions and contracts that adversely impact the necessary flows of rights. An IP attorney without litigation experience may not be in a strong position to explain the posture and possibilities of liability in a pending lawsuit. An understanding of rep and warranty insurance will change how you negotiate agreement terms and RWI deals. Many IP lawyers don't frequently reach out to labor and employment or privacy counsel, but effective deal specialists need to find those cross-practice seams.

Even the cadence of diligence, requests, responses, follow-ups, iterating reps and warranties based on that diligence is something that many IP attorneys don't encounter in their day-to-day practices. It is not exactly like discovery, it is not exactly like prosecution, it is a unique process. So, I'm sad to say that I can't sell you one weird trick that guarantees perfect IP diligence. There are simply too many variables. The key is having specialists who are comfortable operating across IP disciplines, familiar with deal work, quick to phone a friend on the deal team or in another practice area, and adaptable to what each deal requires.

Lee: Okay, so let's switch gears. And we obviously can't have a podcast without mentioning AI in 2026. Let me ask you, how do you diligence AI in software?

Clark: No, there is a lot of flares to that onion. So, let's start with the basics. With software, the first question is usually what is actually proprietary? What is off the shelf? What is truly unique to the company? If something is material to the business, we need to understand who owns it, where the company's rights flow from, what third-party rights it depends on, and whether it can be replaced and at what cost.

That means looking closely at assignments, especially where contractors or vendors were involved in standing up a custom solution. It means looking at open-source software, sometimes with outside technical assistance, because companies don't always have clear record of what is embedded in their stack. And it means understanding third-party licenses, because sometimes there is a single license that, if it doesn't carry forward, can cause the whole system to break.

From that software piece, AI adds another layer of complexity. Is the AI system actually proprietary, or is it a wrapper built on someone else's model? Who owns the training data, the prompts, the outputs? Many of these questions are familiar from software diligence, but AI multiplies the number of nodes and edges you need to evaluate to be confident that the IP rights are in order. Besides the rights to use software, generative AI also raises new questions as to ownership of company IP. Are employees using it to create company IP? Are they feeding proprietary information into public platforms? Are there chain of title questions based on third-party platforms creating some of the IP? Will IP offices extend protection if a bot created a work product? Depending on how a company has used AI in the course of their business, there may be a lot of questions to ask to make sure that they did not use it in a way that undermines the IP rights they need to protect. So, AI isn't all new questions, but it is not all old ones either. And as these tools spread across every function of a business, they've become impossible to ignore in diligence.

Lee: Now, does your IP diligence play a role in shaping the deal agreements?

Clark: Absolutely. Even if we start with a familiar purchase agreement form and submit revisions early in the process, diligence often drives changes to the definitive agreement and the ancillary agreements. Buyers want clean, absolute representations, but reality doesn't always permit that. Good IP diligence helps determine what can be represented cleanly and what needs to be disclosed, what needs a tailored rep, and what might call for a special covenant.

Sometimes it is simple, like adjusting an IP ownership rep to acknowledge that, no, the company doesn't own it all, but they have an unremarkable license to the IP used in their ordinary course, and that license isn't going to be impacted by closing. Other times it is more complex, like reworking software reps to be truthful while still protecting your client once you learn a week before closing that material seller software incorporates potentially problematic open-source components.

Diligence also informs what additional agreements are needed. Licenses, assignments, releases all bear directly on IP, and other contracts like transition service agreements often implicate IP issues. So, the IP specialist isn't just reacting to the deal documents, they're actively shaping them right up until we go pencils down or the deal closes.

Lee: And just one last question for you. Does the IP diligence team have a role after they complete their research and provide their input on the definitive agreement?

Clark: Yes, and this part is often overlooked. After diligence, IP specialists help shepherd the deal to closing and post-closing actions, and that can include things like following up on required notices and consents, bearing on some of those licenses we referred to earlier, recording assignments, releasing security interests, or fixing issues that were uncovered during due diligence, like, for example, getting employer or contractor assignments in order or standardized, or properly marketing products for patent coverage. The IP team may not always be in the spotlight at that stage, but their work is often critical to making sure the transaction actually delivers what is promised.

Lee: Well, this has been a great conversation. Thank you, Brendan.

Clark: Thank you very much. It was great to talk to you.

Lee: If you have any questions for Brendan, his contact information is in the show notes. As always, thanks for listening to BakerHosts.