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4 KEY TAKEAWAYS

Trademark Clearance

Kilpatrick Townsend senior counsel Chris Bussert recently presented in a workshop with Jeremy Liebman, franchise counsel at Krispy Kreme Donut Corporation, and Jason Adler, general counsel at Cellairis Franchise, Inc., at the ABA Annual Forum on Franchising in Denver, Colorado. The title of the workshop was *Trademark Clearance and Investigation Considerations Before Expansion Through a New or Existing Concept* and the speakers discussed important, but frequently underdressed, intellectual property issues that can arise during transactional due diligence and steps franchisors or franchisees, who are looking to grow through acquisition, can take to minimize any issues that are identified.

Mr. Bussert offers four key takeaways regarding this subject:

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In many transactions, one of the most important, if not the most important, due diligence consideration often goes ignored completely or is only given cursory attention, that being the target's trademark portfolio, and in many cases where the portfolio is identified as part of due diligence it is also accompanied by the request: "We are closing a major deal tomorrow. Can you spend no more than a couple of hours looking at the IP issues and give us your blessing?". This request either assumes you are a miracle worker or that the transfer of intellectual property is a purely ministerial activity, which is rarely true except for the most basic of transactions. More often, multiple issues and sub-issues are identified during the due diligence process and the answer to one question may lead to many new inquiries that need to be chased down.

Acquiring companies have been known to make a number of alarming assumptions about a target's principal or "house" trademark, i.e., the name and trademark under which the target operates and has presumably developed at least common law rights. Perhaps the most potentially disastrous assumption is that the trademark is available for use nationwide solely on the basis of the target's use of that mark in connection with all of its current goods and services without challenge in a limited geographic area. Such assumptions can prove to be dangerous and costly, especially where the principal goal of the acquisition is to expand the target's operations under its principal trademark nationwide.

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Acquiring companies and their counsel should carefully review all documents related to the acquisition, but particularly those relating to the intellectual property subject to the transaction, to ensure that all right, title and interest in that intellectual property is being transferred and that they do not include any provisions affecting their transfer. For example, it is not unusual for gaps to be identified in the chain of title of the intellectual property during due diligence that ideally should be addressed prior to closing.

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Although performing due diligence on the front end of a transaction is an extremely worthwhile and critical step, that step alone is often not enough to protect fully the acquiring company's interest because even the most thorough due diligence may leave the target's principal mark or other intellectual property vulnerable to issues the acquiring company did not or could not have anticipated. Thus, the transactional documents will play a key role in ensuring the acquiring company is protected. Among the vehicles that should be considered by the acquiring company to protect its interests and maximize the value of the transaction are appropriate representations and warranties, indemnifications, insurance and the establishment of a purchase escrow account or hold back reserve.

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Christopher P. Bussert is senior counsel in the Atlanta office of Kilpatrick Townsend & Stockton LLP. Over the past 30 years, Mr. Bussert has represented clients in trademark, copyright, false advertising, and franchise litigation, and in licensing and trademark clearance and prosecution matters. He is a past Editor-in-Chief of the *Franchise Law Journal* and a past member of the Governing Committee of the American Bar Association Forum on Franchising.

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