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INTELLECTUAL PROPERTY

Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in intellectual property.

UNITED STATES

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Respondents

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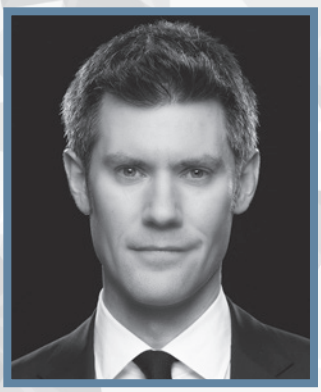
Frank Azzopardi is head of Davis Polk's IP, tech & commercial transactions group. He has extensive experience structuring and negotiating complex commercial transactions and counselling clients on intellectual property and tech-related issues arising from those transactions. He regularly advises clients on licensing matters involving all forms of intellectual property and technology, royalty securitisations, intellectual property sales, joint ventures, collaborations, reorganisations and spinoffs. He also consults in connection with disputes, tax restructures and insolvency-related matters involving IP and technology.



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Matthew Bacal, a partner in Davis Polk's IP, tech & commercial transactions group, advises clients on IP, technology, media and data privacy issues arising in their operations and strategic transactions such as M&A activities, JVs, licensing, outsourcing and supply agreements, financings, restructurings and capital markets offerings. He is also the corporate lead for the firm's cross-disciplinary data, cyber security & AI practice. He has extensive experience structuring, negotiating and drafting complex commercial arrangements across a range of industries, including with respect to media and sports rights, content distribution, data use and monetisation, cloud services, branding, sponsorship, hardware, software and other technologies.

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Q. Have there been any recent legislative or regulatory developments in the US that will affect intellectual property (IP) going forward?

A. Given the recent and incredibly rapid rise of ChatGPT and other generative artificial intelligence (GenAI) technologies, the intersection of intellectual property (IP) law, particularly copyright law, and AI is probably the IP topic most at the forefront of the minds of legislators and regulators. With several critical copyright cases pending in the AI space, and existing copyright law ill-equipped to address some of the challenges posed by these powerful technologies, a legislative solution is likely the best way forward. Both houses of Congress have held listening sessions on the topic, but with the current dysfunction of our legislative bodies, it is difficult to hazard a guess as to when Congress might be able to address even such a traditionally nonpartisan topic as copyright law reform.

Q. Could you outline any high-profile, IP-related court cases that have arisen over the last 12 months or so in the US? What impact could they have on the market?

A. There are several notable AI-related cases pending that implicate copyright law. Many of these cases relate to the unlicensed use of copyrighted works as training data and raise key questions around the scope of fair use. The outcomes of these cases could significantly impact the growth of the burgeoning AI industry if, for example, it becomes clear that fair use is not a defence for the use of unlicensed copyrighted works to develop commercial AI platforms. While licence fees from AI developers would be a boon to copyright holders, the increased costs either would reduce developers' margins or be passed through to customers – either of which might make the space less attractive to investors. Moreover, adverse rulings on the scope of fair use might have unintended collateral impacts. The purpose of fair use is to foster creativity and artistic expression for the greater good; if the case law swings too far against fair use, it could have a chilling effect on creative industries and innovation.

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Q. In your experience, are companies doing enough to manage their IP portfolio effectively? What key considerations do they need to make?

A. Companies need to understand which parts of their IP portfolio are critical to the bottom line and ensure that they are protected to the maximum extent possible including, in the case of patents, identifying where the greenfield lies and what could be ripe for additional innovation and protection. Companies do not pay enough attention to understanding where that value is in their portfolio; they often fall into the trap of focusing on the size rather than the quality of the IP portfolio. In terms of unlocking value, an increasing trend we are seeing is that companies are looking to meet their liquidity needs by leveraging their IP portfolio in novel financing structures including by adopting IP drop-down financings which incorporate bankruptcy remoteness features and other deal technology that ensure that the collateral package holds together if the company becomes distressed.

Q. What advice would you give to companies on patent protection and enforcement? How important is it to police and monitor IP rights in today's global marketplace?

A. The emerging trend has been for the courts and legislatures to narrow the scope of patentable subject matter in the US. However, even so, patents are still incredibly important to most technology companies, and their ability to compete is often predicated on how well they can leverage their patent portfolios – both from a defensive perspective to ensure they have the freedom to operate and from an offensive perspective to ensure there are sufficient technological barriers to entry. As for the latter, there is certainly no shortage of companies looking to enforce their patent rights against their competitors. Ultimately, a patent's worth is only preserved if a company polices and enforces its rights against potential infringers. Sitting on one's patent rights, without the potential threat of enforcement, means that others in the marketplace are able to exploit the underlying invention without licence

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or any consideration flowing to the patentholder.

Q. In your opinion, should IP due diligence be considered an essential part of M&A transactions? What are the main areas that acquirers need to address?

A. IP due diligence is certainly essential in most M&A transactions, given that IP as an asset class has become among the most critical and valuable assets a company may have and an important value driver for a company's business, especially when considering that data is best categorised as an IP asset. For example, if you consider most Fortune 500 companies, the bulk of their worth is embodied in intangibles: key brands, innovations, data, content and other proprietary rights. The IP diligence undertaken in any transaction must be thorough to ensure that the acquirer secures the business in a manner that can preserve the value and, where applicable, provide enhanced value when integrated with the acquirer's existing business. Acquirers and their counsel need to verify, among other things, that ownership rights are properly vested or assigned, licence rights have been properly granted,

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infringement risks assessed, and potential synergies and gaps identified.

Q. Are you seeing any recurring themes in IP-related disputes? What steps should companies take as soon as an IP dispute surfaces?

A. Litigation funding has become ubiquitous in IP-related disputes. While funders have funded patent cases for a few years now, they have recently become very active in trade secret cases as well as offering more complex products such as verdict insurance and general IP insurance. Such funding mechanisms have a significant impact on settlement dynamics as well as tactical issues such as forum selection. Litigation in the AI space is just ramping up as companies and courts grapple with the way that GenAI practices, products and services fit within traditional IP and privacy regimes. Several claims have been brought within the last six months, covering invasion of privacy and property rights, patent, trademark and copyright infringement, and libel and defamation. Most cases are still in their early stages and appellate courts have yet to weigh in, leading to great uncertainty with respect to this new, and inherently evolving, technology.

Q. What advice would you give to companies on contractual issues surrounding IP rights? What key clauses should be included in contracts to account for the possibility of future disputes arising from an agreement?

A. The real key is to have discipline when negotiating contracts to sweat the detail and legislate for deal terms in a manner that accurately reflects the transaction being bargained for by contracting parties. Unfortunately, there are times when corners get cut and compromises get struck. This can be a recipe for disputes and potential litigation and detracts from the contracting parties exercising maximum efforts for the full benefit of the transaction. It is important to identify key points of leverage, recognise any counterparty risk, including insolvency risk, which is increasingly fundamental as market conditions deteriorate, and ensure risk is properly allocated among the parties through appropriate indemnities, warranties and insurance requirements. One always wants to be in a position

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where there are no hidden surprises in the contract and the dominoes all fall in line as intended when issues unexpectedly arise during the course of the contractual relationship. ❑

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