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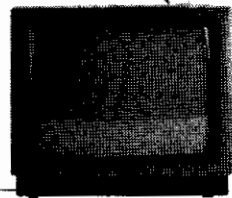
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# IP assets require due diligence protection

BY SUSAN DEUTSCHLE

■ FOR BUSINESS FIRST

Things that can't be seen or touched are sometimes worth the most. Intellectual property assets, for example, often have a higher value than the bricks and mortar, furniture and fixtures, and other capital assets owned by a company.

Remarkably, however, many prospective buyers and investors overlook doing proper due diligence on a company's trademarks, copyrights, brands, licenses, patents, trade secrets, Internet domain names, customer lists, goodwill and other intangibles.

"In most cases, intellectual property tends to be worth much, much more than all the physical assets," said Joseph R. Dreitler, a partner in the Columbus office of Jones Day.

Too often, though, people enter into a deal thinking they're acquiring something of value, and later

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**Joseph R. Dreitler**

Jones Day

## DILIGENCE: Trademarks, brands, patents not always included in purchase price

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learn that they haven't really acquired anything significant because the name and trademark didn't come with the transaction, or perhaps a critical license expired. People naively presume that those IP assets are included in the purchase price, but that's not always the case.

Budget-conscious buyers involved with smaller deals are generally the most likely to cut corners by not hiring an IP attorney. Others are simply eager to get the deal closed. But being cheap, sloppy or in a hurry can be disastrous.

"Acquisitions can be very exciting, but emotions run high and love can be blind," Dreitler said.

"Let's face it, there's nothing sexy about doing due diligence and sometimes people

One of the most famous flubs occurred with the 1989 acquisition of the Sea World chain of amusement parks. The buyer, St. Louis, Mo.-based Anheuser-Busch Inc., learned too late that the trademark Shamu was not owned by the seller.

would rather not know about the blemishes," he said. "My job is a lot like a mechanic helping someone buy a used car. I kick the tires and look at the different parts under the hood."

### Big companies not immune

Even larger entities with formidable financial and legal resources have made the mistake of shortchanging the IP due diligence process.

One of the most famous flubs occurred with the 1989 acquisition of the Sea World chain of amusement parks. The buyer, St. Louis, Mo.-based Anheuser-Busch Inc., learned too late that the trademark Shamu was not owned by the seller. After the deal closed, Anheuser-Busch was left without the legal right to use the name of the famous killer whale that had become synonymously linked with the Sea World brand. The beer maker had to eventually shell out a hefty sum to a third party that held the license to the beloved whale's name.

According to Dreitler, all buyers – of deals big and small – need to ask themselves this important question: If I can't use the name, domain, trade secrets, etc. of this company that I'm thinking about buying, does it really make any difference to me?

"If the answer is yes," Dreitler said, "then they need to make sure that they get all the appropriate conveyance documents, including good and clear titles to all those things to make it legal."

Proper due diligence on IP assets isn't typically a do-it-yourself project, in spite of the Internet's ability to link information seekers with many of the agencies that hold the data they need.

Nicolette Hudson, a senior associate with the Columbus office of Frost Brown Todd LLC who deals with trademark law, said Internet access to the U.S. Patent and Trademark office and other key organizations sometimes creates false comfort in people.

"They may think that just because they find what they're looking for online that everything is OK," she said. "But there are subtle nuances that they probably won't be in tune to recognizing and understanding."

Problems can often occur due to an honest lack of understanding on the seller's part. They may think they own something that they actually don't. Hudson said a small company may pay an independent contractor to create specialized software that becomes integral to running the business. But when the company is sold, neither it nor the buyer may realize that the independent contractor owns the rights to the software.

"Facts like that have to be ferreted out before a deal is closed," Hudson said.

Indeed, the due diligence process should always be customized to the client and take into consideration current and future business goals. And because most companies buy businesses to expand them, it's important, among other things, to ensure that a name or trademark can be used in the state or region that are part of the overall strategic expansion plan.

"Determining the business goals determines the due diligence," Dreitler said. "It's important to ensure that you're getting conveyed rights that will allow you to expand and do what you want to do in the future."

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## Merger to cost 100 HQ jobs

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The American Banker reported Aug. 23 that Charter One Financial Inc. is cutting about 100 jobs at its Cleveland headquarters as part of a buyout by Citizens Financial Group Inc. The trade publication attributed the news to Cleveland Mayor Jane Campbell, who said it was conveyed to her by Thomas Hollister, chief executive of Charter's Midwest region. The reductions are expected to be made in management and technology departments.

Providence, R.I.-based Citizens is buying Charter One in a \$10.5 billion deal that has been approved by regulators.