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“Do the Due”: Performing proper diligence when assessing IP assets for acquisition

Knowing all of the benefits and issues before acquisition is the only way to ensure a well-reasoned patent acquisition

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The concept of due diligence often arises when intellectual property (IP) assets become available for potential acquisition. Any number of reasons may lead to this availability. An asset may be for sale due to an entity going out of business or because an entity is in bankruptcy. An entity could also decide to sell the asset if there is simply no longer a need or desire to maintain rights in the asset, or due to another entity's inquiry into possibly acquiring that asset.

The importance of due diligence historically has been downplayed. For the most part, it didn't matter what condition an asset was in so long as it was acquired. Entities used intimidation tactics to walk into a negotiation with a stack of patents and simply say that “my stack is bigger than your stack.” To do so, they wanted assets, no matter the warts associated with them. Today, the litigation and negotiation environments are much different. Quality, not quantity, assets define a negotiation and whether one entity has IP leverage over another. Proper background checks in acquisition, whether for negotiation or defense purposes, now are more important than ever to determine and appreciate what assets are really available. An asset can have warts, and often does, but many are curable.

When determining whether to acquire an asset, you should take many considerations into account. The obvious one is the economics of the sale and its effect. Some IP offerings simply are too expensive on their face to even warrant a due diligence analysis. Even so, an entity should perform some manner of preliminary damages analysis should an infringement action be brought against it. If an entity decides not to acquire an IP asset for economic reasons, it should still address passing it up (whether through a due diligence analysis for unenforceability, non-infringement, or invalidity, or a preliminary economic analysis for infringement and design arounds) to appreciate the economic effect of that decision.

Still, the applicability of claims of a patent to different technologies may make an asset more valuable than a sales price. U.S. patents often are drafted in accordance with a commercial embodiment of a product/service or some specific idea that an inventor(s) has in mind. Yet, if prosecuted correctly, the claims of a patent may be broader in scope. Accordingly, another factor to help determine economics/value and use is the due diligence factor, e.g., assessing what the asset is and what it isn't.

Due diligence is loosely the analysis of the pros and cons of an asset. A proper and extensive due diligence analysis always should bring each and every potential issue to the forefront for the entity seeking the diligence. The ultimate goal of a due diligence analysis should be two-fold:

1. Determining any defendant's defenses, including finding the best art references a defendant might find; understanding how a child patent/application or parent patent/application in a family can impact an asset; and identifying the estoppel created not only in the underlying file history of the patent, but in foreign counterparts and related matters
2. Appreciating the economic impact such an IP asset could have on the entity or another entity. For example, a patent that covers an industry standard would have a higher economic impact for an entity, especially if the industry standard is one that the entity must abide by for its products/services. In other examples, claims of a patent may cover a competitor's product/service while not covering one for an acquiring entity. In such a case, the acquiring entity still may want to acquire the patent even though the entity itself would never be infringing the patent.

Many people believe that a due diligence analysis is merely a checklist of whether "X" was completed, or whether "Y" is "OK." A handy dandy checklist of all things due diligence is nice, but unrealistic since it is never a "yes or no" checklist. A proper due diligence analysis seeks to find error, properly construe claim language, establish prior art or other invalidity rejections, uncover inequitable conduct contentions, discern doctrine of equivalents arguments, check and recheck priority, and question inventorship. The reason is simple: Some errors are correctable either before or after a patent asset is acquired, while other errors are not.

Understanding the warts prior to acquisition drives the cost of the asset down. If an entity knows that an acquired asset will require additional post-grant prosecution to correct errors, the entity can push for a lower cost. The entity should also know that an asset needing reissue or reexamination can incur large clean-up costs. Yet the result may be an extremely defensible and highly enforceable asset. An example in today's IP environment is traditional computer-implemented method claims. Recent Supreme Court and Federal Circuit decisions have changed the computer-implemented method claims landscape dramatically. Past solutions of putting traditional manual operations in computer-readable medium formats are failing at the Supreme Court and Federal Circuit levels. Courts are finding that many of these claims are patent-ineligible subject matter. So, unless the claims of such a patent are corrected in reissue or reexamination, the patent itself may be economically useless.

An acquiring entity wants to know the potential rejections it faces in a reexamination proceeding or a litigation. An acquiring entity wants to know all of the issues and concerns with acquiring the asset and what will need to be done if acquired. An acquiring entity wants to know the results of this analysis before entering into any negotiation. A wart-ridden asset may cost substantial money to correct after acquisition, but also may be an economic factor in negotiating for a lower cost. Additionally, issues concerning inventorship, priority, ownership or similar subject matter can be raised and addressed in negotiation. A party selling an asset may be quick to respond to inquiries concerning such subjects but often are unresponsive after funding is in hand. Accordingly, knowing all of an asset's benefits and problematic issues before acquisition is the only real way to ensure a well-reasoned patent acquisition.



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