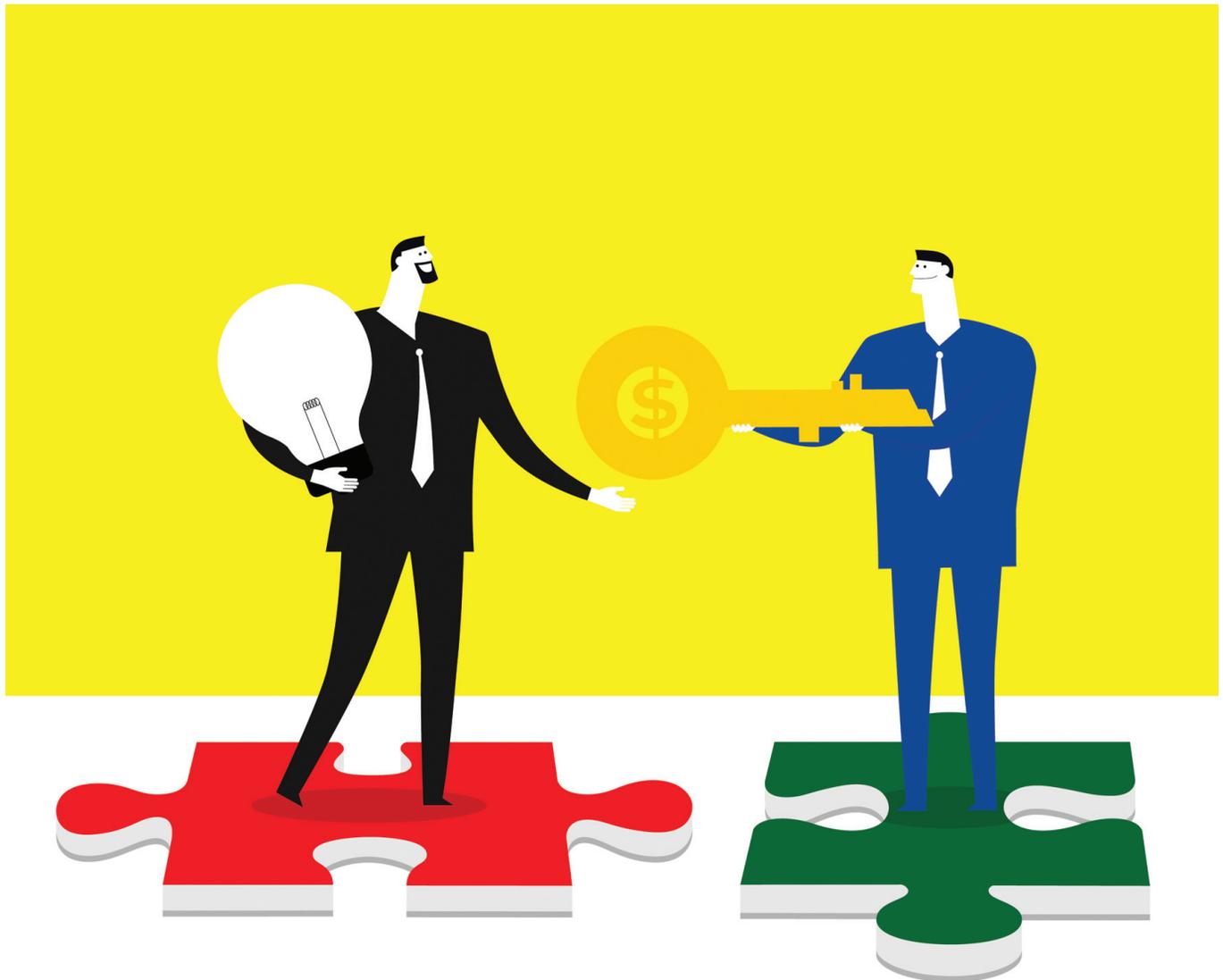


Today's GENERAL COUNSEL

Intellectual Property

How Due Diligence Analysis Drives a Negotiation

By John M. Fleming



Due diligence is the process of evaluating an asset or portfolio of assets to determine benefits and potential issues. Basically, it's an assessment of pros and cons.

Due diligence can allow either or both parties to a negotiation the opportunity to drive the value of the

offering up or down, as well as to appreciate the underlying problems that must be addressed. The legal hurdles that must be overcome weigh differently for a potential seller and buyer, and often each has different goals in its analysis of the value of an asset. With any given asset, a seller wants to sell

high, and the buyer would prefer to buy low. Confidential, or often shielded from certain entities, a due diligence analysis can have an enormous impact on the negotiation process.

Patents present unique due diligence issues. There are a number of approaches that a patent asset seller

can take. Some sellers choose not to perform due diligence and leave it to the buyer, so the buyer will absorb the costs. In the end, however, that will cost the seller more than doing some level of up front diligence, perhaps even before a potential buyer is involved.

A seller should approach the sale from the perspective of the buyer. What will a buyer want this for? Which industry will be most impacted by this asset? This is where an infringement due diligence analysis can be a real benefit for a seller.

Sometimes a seller may prepare generalized claim charts with regard to a specific entity's product/services. These charts show a potential buyer how the patent claims stack up and can be a good starting point for illustrating its value. Emphasizing infringement by

– a buyer should be concerned with enforcement and the potential to go after another entity, whether immediately or sometime in the future. Thus, the validity of an asset to be acquired is an important factor in assessing the value.

A validity diligence analysis can help inform a buyer about potential prior art that is not of record and that may affect eventual enforcement. The buyer should be assessing the offering as a defendant would – trying to uncover any applicable prior art, turning over any stone that could limit the scope or enforcement, and trying to discern the area of a non-infringement contention.

Similarly with respect to infringement: A buyer should seek to assess the potential for an infringement action against a third party, whether through charts provided

seller to better appreciate the underlying cost or risks associated with correction. Again, these cost and risks can be used to drive the negotiation process.

Due diligence is often conducted by the buyer, because the buyer has the biggest risk, namely acquiring something of no value. Although a seller may not be selling the asset at market price, it still receives some compensation.

Still, due diligence analysis by a seller is beneficial in comparison to the cost. A negotiation often includes a back-and-forth discussion, with the need for due diligence by both parties. The process is akin to a used car deal, where a dealership wanting to sell a customer a nice car will tune the vehicle, wash it clean, vacuum it, and fix any aesthetic blemishes, all to win the heart of a buyer. Meanwhile, a potential buyer should be researching the vehicles's pros and cons, researching the dealership, the vehicle's market value and how it's trending, and also getting an independent evaluation of the vehicle by a mechanic.

All these things cost both parties money but help drive the cost to an agreed-upon medium. Like a car, a patent is a form of personal property and should be treated as such when assessing whether to acquire or let go. In most cases, a broad view of the positives and negatives in a portfolio offering derived through due diligence should steer the negotiation process on both sides of the deal. ■

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a competitor of the buyer, or perhaps the buyer itself, enhances the potential sale value of an asset. A keen seller can divulge enough information without disclosing all of its cards.

Pendency is another relevant issue. An issued patent has a different value to a buyer than an offering that has a pending application at the U.S. Patent and Trademark Office, because a pending case allows the buyer to prosecute claims as it desires. The most important parts of an asset for sale may not be the issued patent itself. Subject matter in the patent application that can be developed and drafted in light of the specific goals of a buyer may be far more important. Accordingly, a seller should try to maintain pendency of an asset for sale throughout a negotiation process.

For a patent buyer, the value of an asset offering is driven toward potential enforcement. Although buyers may desire to acquire an asset merely for defensive purposes – so that another party does not acquire it to bring suit against them

by a seller or independently. In either case the buyer should look critically. The effect can be two-fold. If the asset is pending, then even if the claims have problems, or do not read directly on a competitor's product/service, additional claims may be drafted that do read directly. A buyer can seek to drive down the cost of an acquisition by discussing the weaknesses with the seller, without divulging the potential correction or removal of the weaknesses in a pending application.

Whether buying or selling, a party should appreciate the cost of correction associated with an asset. Many issues regarding a patent can be fixed with time and money. A patent owner can file a Certificate of Correction, often with a fee. Larger problems can be corrected with a reissue filing of the patent, also with applicable fees. Ultimately, many issues can be addressed through some form of filing with the USPTO, but the costs and potential repercussions vary widely. A due diligence analysis can identify these issues, to allow a buyer or



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