

Inside Counsel

“Do the Due”: Due diligence practices geared toward potential offensive use

Simply put: never acquire a patent like an ostrich with its head in the sand

By [John M. Fleming](#)

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When a patent or patent portfolio offering becomes available for acquisition or, similarly, when a company is looking to acquire another entity that has intellectual property assets, some form of due diligence regarding the assets normally occurs. In many instances, the cost of acquisition of the entity with the IP assets is based upon the value of those assets. Companies may have physical resources and personnel, but their IP can often be the reason for the acquisition. In such circumstances, many companies looking toward acquisition for offensive use are not taking the necessary steps to verify the enforceability, and more importantly even, the outright ownership of the IP assets.

When looking to acquire a patent or patent portfolio for eventual offensive use, due diligence is needed and a proper due diligence is essential. Although it may sound completely counterintuitive, the main goal of the diligence project should be to invalidate the patent, to find the patent unenforceable, and/or to identify some other issue with the patent. The reason is actually quite simple. When Company A sues Company B on such a patent, Company A undoubtedly will face a similar response from Company B. A defending entity will argue non-infringement and invalidity, but it also will argue unenforceability and lack of standing. As part of the acquisition, the acquiring entity needs to know all issues, problems, irregularities and discrepancies associated with a patent. Possibly aside from non-infringement affirmative defenses, an acquiring company should address any possible defense that a defendant may proffer.

Conducting a validity analysis on a patent assists in negotiation. Determining whether the best prior art references were put before the U.S. Patent & Trademark Office (USPTO) for examination purposes and whether there are other prior art references more on point to the invention provides insight into the purported strength of the patent against an invalidity defense. An on point art reference dated after the filing date of the patent may not be a prior art reference, but it may provide information on other prior art references that existed. Often some of the best locations for prior art references are found in issued, pending or abandoned child applications. A continuation application that was subsequently abandoned may provide additional art references that were never before the examiner who examined the patent to be acquired. Those new prior art references may similarly affect the patentability of the patent to be acquired.

In similar contexts, the prosecution of foreign counterpart applications to the patent to be acquired can be fruitful sources of prior art references. Although the USPTO seems to take quite some time to issue patents, it often examines cases earlier than other foreign jurisdictions. A foreign counterpart to a U.S. application may not even be filed until a year after the U.S. application. In many cases, the U.S. application is examined and proceeds to issuance before the foreign counterpart is even examined. In such cases, a foreign patent office cites prior art references for rejection that were never presented before the U.S. examiner. Yet, validity analysis is but one piece of a proper diligence on an asset.

Not all mistakes associated with a patent are noticed by the USPTO during prosecution. Many mistakes are correctable with a small or sizeable fee. Yet, other mistakes are not correctable or have dramatic effects on term or enforceability. Take a claim of priority as one example. Under U.S. practice, an applicant can continuously claim new continuation after new continuation, resulting in a long priority chain. It is not uncommon to find a patent to be acquired that claims priority to three or more U.S. patents in a long chain. Yet, one of those earlier patents may be deemed a prior art reference to the patent to be acquired. A mistake in a priority claim in an intermediate patent in the chain effectively destroys the claim of priority thereafter in the chain. As such, an earlier version of the same disclosure by the same inventors could end up being a prior art reference for invalidity purposes. In other occurrences, statutory requirements may have been missed and the mistake simply may not have been caught by the patent office.

Imagine a patent family chain where one of the links in the chain is an application that was abandoned. Many people believe that an application becomes abandoned when the patent office issues a notice of abandonment. Yet, such a notice is merely a formal acknowledgement of the occurrence, not a date, and such a notice often follows weeks, if not months, after the actual statutory date of abandonment. Accordingly, the face of a patent to be acquired may show a chain of priority back to an earlier application/patent, yet the abandonment of a middle application in the chain effectively destroys the chain or priority to the first link. Now later art references are potentially in use for invalidity, including even the previous patents/applications in the family chain.

Still other factors should be taken into account for a proper diligence analysis. Previous litigation of the patent may find a settlement agreement between the parties. Such an agreement may include a license between parties. If a potential defendant only is infringing the patent due to the use of a product/service of that previous defendant in the now settled litigation, then the potential defendant may be indemnified from an infringement action.

Whether seemingly small or large issues, all issues should be identified and vetted. In the end, minor flags can be corrected even if requiring some fees. Major flags can be used to lower the acquisition price or walk away from the potential acquisition altogether. Simply put: never acquire a patent like an ostrich with its head in the sand.



John M. Fleming

John M. Fleming is a principal shareholder in the Washington, D.C., office of Banner & Witcoff Ltd. He concentrates on preparing and prosecuting utility and design patent applications in a variety of technical fields while participating in litigation matters, client counseling, and opinion work.