

FEBRUARY 2019

Patent Acquisition:

A DUE DILIGENCE CHECKLIST

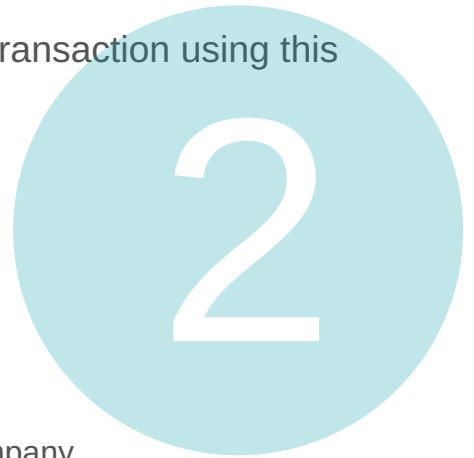


Preparation



- Consult with business executives and in-house counsel to understand client goals for the patent acquisition
 - What is the key technology involved in the transaction?
 - What is the business plan for using the patent portfolio?
 - How do the target patents fit into the IP portfolio as a whole?
 - Who and what are the competitive threats to the business plan?
- Work with client to adequately prevent “infecting” the client’s employees with the patent owner’s technology to potentially avoid future litigation if the deal does not close
- Develop a communication strategy for communicating due diligence information
- Develop an individualized strategy for the particular transaction using this guide as a reference

Gather Information



- Identify the IP to be acquired
 - Collect information from the client and from the target company
 - Conduct an independent investigation, searching (for example), for all patents assigned to the target company
 - For large patent portfolios, identify representative or key patents for thorough evaluation
 - Determine whether there are any pending applications relating to the patents and whether those will be part of the deal.
- Gather information about patents and pending applications
 - Obtain copies of target patents and their file histories
 - Obtain records of any past or current reexamination or other post-grant proceedings filed against, or any post-issuance developments relating to, any of the target patents

Gather Information (cont'd.)

- Obtain records from any litigation involving the patents, particularly any findings with respect to claim construction and invalidity
- Obtain copies of any relevant agreements involving the patents, including current licenses, offers to license, covenants not to sue, settlement agreements, merger agreements, OEM arrangement agreements, agreements on importation of technology, and indemnification agreements
 - Note any royalty streams or obligations associated with any of these agreements.
- Calculate and list the relevant dates:
 - List the filing dates of each patent and note which patent applications are pre-AIA and which are post-AIA
 - Calculate the expiration date for target patents
 - Check maintenance fee or annuity status for target patents and list when the next payments are due for each patent
 - List the various due dates for any pending applications, including convention dates for foreign-filed patents
 - Make a special note of any actions that need to be taken in the next three months to avoid loss of rights from any patent office and develop a plan to make sure those actions are taken
 - List applications that are scheduled or are likely to issue during the due diligence period and consult with the client as to whether continuation applications should be filed
- Obtain copies of all ownership and assignment records for target patents, including copies of assignment clauses in employment agreements
 - Also obtain copies of any liens, security interests, or other burdens on the patents, being sure to independently check the PTO and Secretaries of State



Gather information concerning ongoing R&D at the target company

- Investigate current research and development initiatives in the field(s) of the target patents
- Investigate any relevant applications that are in process but have not yet been filed
- Obtain copies of employee agreements to assign patent rights for employees who are working in the relevant field(s)

Gather Information (cont'd.)

- Gather information about the field of invention(s)
 - Gather all relevant prior art in the field(s) of target patent known to the target company
 - Gather any previous validity studies that have been done on any of the target patents
 - Gather any previous freedom-to-operate studies that have been done
 - Gather information about competitors' activities in the field(s) of the target patents

- Conduct a preliminary review of the IP, looking for potential obvious fatal defects before doing a full evaluation
 - Are there any serious obvious errors on the face of the patents or that are otherwise easily discoverable (e.g., lapse of patent due to missed payment of maintenance fee)?
 - Are there pending proceedings in which any of the target patents are likely to be found invalid, unpatentable, and/or unenforceable?
 - Be sure to check district court filings and post-grant filings
 - Review the information about the field of invention—is the field crowded? Are there blocking patents? Are there many competitors in the field that would obviously stand in the way of your client accomplishing its goals?

Analyze Enforceability

Ownership

- Determine whether the target company owns 100% of each of the target patents

- Determine whether applications or patents list the proper applicant(s). Most countries (including the US after the AIA) do not require that an application be made by an inventor. However, patents in these countries can be invalid for not listing the proper applicant (who may or may not be the inventor).



3

Analyze Enforceability (cont'd.)

Analyze any license or similar agreements related to the patents-in-suit

- Do any license agreements prevent transfer without consent? If so, will consent be given?
- Are any of the licenses transferable or assignable? Will that be problematic for your client's business plan? Can a competitor simply buy up licensing rights?
- Are any of the termination dates in the agreements problematic for your client's business plan?
- Are there burdensome restrictions or limitations in licenses that would prove problematic for your client's business plan?

Are there any known claims of ownership by others?

Inventorship

Determine whether all patents and applications are properly assigned and recorded with the proper authority

Determine whether all inventors are properly listed on the patent. If not, can you correct the stated inventorship?

Check the timing of the underlying application against each inventor's employment. Did any research and development of the patented technology occur while the employee was working for another company or was not employed by the company from whom the patents are being acquired? If so, is there a written assignment to those inventions? Do any previous companies have shop rights and/or a claim to the patented invention?

Analyze Enforceability (cont'd.)

- Check the employment agreements of employees listed as inventors to make sure proper written assignment agreements were/are in place. Pay special attention if acquiring patents from a startup, especially where the patented technology was developed prior to the founding of the company, to make sure that all IP was transferred to the company from the founders.
- Have there been any “former employee” lawsuits, claims, emails, or other threats contesting the ownership of any of the patents or applications?

Inequitable Conduct

- Review the file history. Did the prosecuting attorney say anything that was incorrect?
- Identify anything “fishy” that might indicate that any individual associated with filing and prosecuting any of the applications did not act with candor and good faith before the USPTO
- Determine whether all the necessary known documentation was provided to the UPTO, including:
 - All known relevant prior art
 - All material publications
 - Prior art cited in search reports of a foreign patent office in counterpart applications,
 - Prior art cited in another proceeding in a foreign country,
 - Copending US applications, or relevant prior art cited in copending applications
 - Information or prior art cited in any related litigation.

Analyze Enforceability (cont'd.)

- Determine whether any identified problems can be fixed
 - For issued patents, the AIA created supplemental examination, a method by which patent owners can correct errors that might otherwise lead to inequitable conduct problems, but be aware of the potential downside of additional examination.

- For pending applications, consult with the client as to whether additional information disclosure statements can and should be filed to fix problems. Be aware that the duty of disclosure will apply to the acquiring entity should it know of any relevant prior art not cited in the original application.

Patent Misuse

- Review licensing agreements to identify any potential patent misuse issues, including:
 - Do any of the agreements “tie” or “bundle” together sales of non-patented products to the license of the patent?
 - Do any licensing agreements call for payments that extend past the life of the patent?
 - Do any of the agreements evince an attempt to monopolize something outside of the grant of the patent?

Analyze Validity

Introductory Steps

- For all patents, review any previous judicial or other proceedings involving the target patents and make note of which claims survived and which were found invalid



4

Analyze Validity (cont'd.)

- For large portfolios, choose several representative or key patents to undergo a thorough validity analysis

- Consult with the client to balance the validity review's vigor with its cost
 - Keep in mind your client's business objectives—does the client care more about quantity rather than quality? Does the client have active plans to assert any of the acquired patents?

- Consult with the client as to whether a third-party search firm should be engaged to do targeted prior art searches for representative or key patents
 - Consult with litigators with experience with these third-party vendors to find a cost-effective search firm

Subject Matter - § 101

For Software

- Review relevant updates regarding software patent eligibility

- Determine whether the target patents claim software implementations of things previously known in society
 - Is the software claimed a more efficient way of organizing human activity? Does the software provide tangible benefits to the way a machine operates or improve the functions of a computer?

- Determine whether the specification discloses novel hardware for implementing claimed software. Is there “something more” that makes the invention more concrete as opposed to abstract?

Analyze Validity (cont'd.)

For Biotech/Pharma

- Review relevant updates regarding rules of nature patent eligibility, particularly if the target patents involve processes in the human body or DNA
- Analyze the breadth of the claims as compared to the disclosure in the specification. Determine to what extent the claims preempt further scientific advances or research in the area beyond what is disclosed.
- Determine whether any of the claims are directed to something that exists in nature, such as unaltered DNA
- Determine whether any of the claims are directed to a “law of nature”—i.e., do the claims simply cover some application of a particular law of nature, such as the reaction between body chemistry and a particular chemical, without adding anything more?

Enablement and Written Description - § 112

- Determine whether the specification sufficiently discloses how to practice the claimed invention to a person of skill in the art
- Determine whether any claims are product-by-process claims. If so, does the specification provide more than just a roadmap for more research?

Analyze Validity (cont'd.)

- Determine whether the specification provides adequate support for the entire scope of the claim. For example, if the claim is directed to both hardware and software implementation of the invention, does the specification provide support for both?

Indefiniteness

- For any means-plus-function claims, identify the corresponding structure in the specification
- Determine if any claims mix method and apparatus elements that would lead to an *IPXL*-type indefiniteness
- Identify any claim terms not used in the specification. Although there is no per se rule against using different terminology in the claims, such situations present special risks of indefiniteness. For any such claim terms, determine whether the specification or knowledge in the art provides a reasonable understanding as to the scope of the claim.
- Determine if any claim elements depend on a certain measurement or ranges of measurement. If so, identify whether the specification or the knowledge in the art provides a definitive measurement method.

Best Mode - Pre-AIA Patents Only

- Does the specification disclose the best way to practice the patented technology?
- Is there any indication in the file history that the inventor knew of a better way to practice the patented technology?

Analyze Validity (cont'd.)

Anticipation and Obviousness

Identify Potential Prior Art

- Gather any information on pre-filing sales or offers to sell
- Gather any information concerning pre-filing disclosures, such as academic publications
- Gather pre-filing patents and other publications that may read on the claims of the target patents
- Gather any other relevant potential prior art, such as products that were available to the public prior to filing.

Analyze Prior Art

- For pre-AIA patents, determine for each piece of potential prior art whether the art pre-dates the conception of the invention covered by the target patent and whether there was diligence between conception and reduction to practice
- For post-AIA patents, determine whether the art (e.g., public disclosures) was made by the inventor one year or less prior to filing. Given the current uncertainty in the law on this topic, a survey of recent caselaw concerning § 102(b) may be appropriate.
- For each piece of art determined to be prior art, determine its content. Does any single piece of prior art teach all of the claimed elements of a target patent?

Analyze Validity (cont'd.)

- Determine whether any combination of references teaches all of the elements of claims of the target patent
 - If so, are those references “relevant” prior art within the same field as the target patent?
 - Is there an identifiable motivation to combine the references?
 - Is there anything in the prior art that would suggest that a combination would not be made or would not work?

- Determine, in particular, whether any claim is simply a minor modification of the prior art
 - If so, was there a motivation to modify the prior art in that way or was there a suggestion that such a modification should not be made?

Analyze Strength and Breadth

5

- Identify any narrowing statements made by the prosecutor that would narrow the apparent breadth of the claims

- Similarly, identify any amendments during prosecution in which subject matter was forfeited or disclaimed

- Review the reasons for allowance (or any other statement by the USPTO) that might be read to limit the breadth of the claims

- Analyze the field and determine whether there are easy ways to design around the patent

- Determine whether the claims cover all embodiments disclosed in the specification
 - If not, can a continuing application and/or broadening re-issue be filed within two years of initial grant for an issued patent?

Analyze Strength and Breadth (cont'd.)

- Analyze any claim construction proceedings either by a court or the USPTO
 - Has the patent owner made statements in judicial proceedings that would prevent a successor from asserting a particular breadth?

Special Issues for Pending Applications

6

- Identify any U.S. or foreign patent applications that have lapsed for failure to timely respond to an office action and determine whether the lapsed application be revived
- Consult with the client as to whether any continuation applications should be filed to keep the subject matter alive for patents that may issue in the near future
- Determine whether the “entity size” identified on any pending applications is appropriate for your client

Freedom to Operate and Strategic Considerations

7

- Gather any “notice” or “cease-and-desist” letters sent to either company, but be aware of any potential for claims of willful infringement based on these letters

Freedom to Operate and Strategic Considerations (cont'd.)

- Map the patents claims to current or future products that the acquiring company wants to protect. Are all products covered? Are the products covered by claims of varying scope to minimize the risk of a finding of invalidity?
- Map the patent claims to competitors' products and identify patent claims that may be infringed by competitor products. What is the strength of claims of infringement? Are there easy or obvious ways for the competitor to design around the claims?
- Analyze competitors' filings and how crowded the IP is in that area. Is there room to develop improvements to the patented technology?

Other Items to Consider

- Consult with the client as to whether to engage an expert to assist with valuation of the target patents based on your research and evaluation of the legal aspects
- Consult with the client as to whether they want to include “know how” or other provisions in its acquisition contract
- Review any regulatory filings related to the target patents, particularly in the pharma arena, and consult with the client as to whether they want to pursue these regulatory approvals and include them as part of the purchase



8

Other Items to Consider (cont'd.)

- Particularly if your client will be operating in the EU and is acquiring European patents, evaluate any potential anti-trust issues that may arise from the acquisition of the target portfolio
- Evaluate and make sure your client complies with regulatory obligations, including
 - Determine whether the transfer of intellectual property assets complies with the competition and licensing laws in foreign countries. (E.g., is notification to the EU commission required?)
 - If the transaction involves two large companies merging, is a notification to the FTC required?

The Contract

You should consider:

- Dispute resolution provisions for intellectual property issues
- Definitions and identification of the various types of intellectual property assets (this is generally accomplished by the use of schedules)
- Transfer Provisions
 - Provision for assignment to the buyer of all IP assets and rights used in or associated with the acquired business or technology. (The language must be appropriate for each circumstance; for example, if the assignment to the buyer is subject to a reserved license for the seller in one or more fields, whether exclusive or non-exclusive, that must be made explicit).
 - Possible provision for cross-licenses for improvements
 - Provision for assignment to, and assumption by, the buyer of license rights and obligations held by the seller
 - Term and termination of patent and know-how licenses



9

The Contract (cont'd.)

Representations and warranties (avoid knowledge qualifiers by the seller, if possible)

- The seller owns title to the scheduled intellectual property assets subject only to identified licenses granted to others, and there are no third party claims contesting the seller's ownership
- The seller has the right to use all scheduled intellectual property assets in the acquired business and the right to disclose the trade secrets and know-how used in the acquired business, and there are no restrictions on the use of these assets that have not been disclosed
- Use of the scheduled intellectual property does not violate any third party rights and there have been no third party infringement claims against the acquired business
- The seller has no knowledge of any defects or other threats, pending or reasonably foreseeable, that will cause the invalidity, unenforceability, or other loss of any scheduled intellectual property asset, and all patent, trademark, and copyright registrations are currently in force
- There are no royalty or other payment obligations associated with the buyer's use of the transferred intellectual property assets that have not been disclosed and all payments are current
- There are no liens, security interests, or other encumbrances on the transferred intellectual property assets that have not been disclosed.
- The seller has no knowledge of any infringement or violation by third parties of the intellectual property assets transferred to the buyer that has not been disclosed
- The usual contract warranties of "no breach" and "valid and in force" apply to all intellectual property licenses from third parties
- The seller will "make a good faith attempt" or "use commercially reasonable efforts" to secure the consent of any third party owner to assign any license to buyer that requires consent of the third party licensor
- The seller has not disclosed any trade secrets or other intellectual property whose value is contingent upon confidentiality without securing an appropriate confidentiality agreement

Indemnification

- The seller should indemnify buyer (and its officers, directors, employees, and agents) from claims that result from a breach of the representations and warranties outlined above. Attempt to avoid caps on total liability, if possible.

After the Deal Closes

10

- Record new assignments of US and foreign intellectual property assets
- List (and put into firm management system, if Fish will be handling the follow up) all deadlines for pending applications
- List (and put into firm management system, if Fish will be handling the follow up) a schedule of all maintenance fees for purchased patents