

IP Due Diligence: Practical Considerations

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Mini-MBA Curriculum for LES National Meeting

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Follow the Money

- Spend time, money and attention in the IP due diligence process on risks that are
 - Probable
 - Material
- Too often checklist of issues is evenly weighted
 - Significant risks are given short shrift
 - Marginal risks are focus of analysis

What is the Real Question in this IP Due Diligence Transaction

- Be careful that you are asking the correct question
- Be careful that the IP due diligence addresses the real question
 - Ownership document audit
 - Freedom to operate / litigation risk
 - Deter copying
 - Exclude alternatives
 - Validity

Trust & Verify

- Use resources outside of the target to verify accuracy of
 - Information provided
 - Implied or explicit context
- Identify missing material factors
- Balance need for stealth & confidentiality with need to understand & avoid material mistake
- Blend electronic & human sources for best understanding

IP Leakage

- IP rights often “leak” to third parties in agreements
 - Customers (rights to use, modify/improve, or use with other suppliers)
 - Suppliers (rights to use, modify/improve, or sell to other customers)
 - Cross-licenses (future IP rights)
 - Employee agreements (unsigned, poorly drafted, don’t cover important issues)

Freedom to Operate Opinions

- Understand the limits of the search upon which the opinion is based
- Need both an opinion and a strategy in depth to stay in the market. They are different and often should be in different documents.

Freedom to Operate Strategy

- Key is to stay in the market
- Need opinion *plus*
- Layered strategy
 - Potential “design arounds”
 - Cross-claims
 - Leverage
 - Third party IP
 - Timing

Managing the IP Due Diligence Process

- Assume that discussions and materials provided to investor/buyer may be discoverable
- Understand the needs of the investor/buyer as they approach the IP due diligence problem
- An early key word outline for discussion purposes can be very helpful
- Correct mistakes early, before materials are finalized
- Treatment of drafts

Oral Debrief

- Have an oral debrief to harvest insights that are not directly related to the IP due diligence
 - Value of patent portfolio
 - Hidden liabilities—future prosecution costs
 - Employee morale
 - Quality of patent counsel
 - IP leakage controls