



STRATEGIC DUE DILIGENCE WHEN ACQUIRING PATENT ASSETS OF FAILING COMPANIES

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The fickle economy continues to take its toll on both startups and mature companies. Many companies that survived the initial dot-com collapse are still at risk for failure, restructuring or acquisition as they struggle with declining sales, the inability to raise capital and the loss of significant partnerships, suppliers or customers.

These impacts of the downturn offer healthier companies an excellent opportunity to acquire the intellectual property assets of these unsuccessful outfits in order to boost their own intellectual property portfolios and gain access to the underlying technologies.

Many of the failed or failing companies filed for patents on their technology. These patent assets provide an attractive jumpstart to another company's efforts to expand its own offensive or defensive position. However, when looking to acquire such patent assets, a company must give careful consideration to the strategic fit of the potential target's intellectual property and to its own current patent strategy.

Strategic patent due diligence involves four types of evaluations: strategic, procedural, qualitative and tactical. Naturally, each of these assessments influences the others, but it is useful to separate them for analysis and evaluation purposes.

The strategic assessment determines how the desired patent assets fit into the acquirer's competitive strategy. In one scenario, a new company is acquiring the patents of a failed, but more mature, company. Here, the older patents can strengthen the new company's offensive position, to either block later comers or to form a licensing pool, particularly when combined with the acquirer's own later improvements on the underlying technology.

This is perhaps the best instance of a jumpstart, because the original patentee already has spent the time and costs to create the patent assets, and yet the acquirer sometimes can obtain the patents at a discount. The acquirer can show prospective customers and investors how it protects the advantages of its new products or other business offerings using the acquired patent assets.

Conversely, if the acquirer is the more mature company, then the target patent assets are more likely later improvements on the acquirer's technology. The patent assets may include improvements that the acquirer would be interested in pursuing and thereby extend its competitive advantages in an existing field or product line.

In other cases, the patent assets may complement the acquirer's patents, covering closely related fields or solutions and approaches that are alternative to, or fill in between, the acquirer's patents. This too is beneficial, giving the acquirer a deeper "minefield" of patents that have to be negotiated by potential competitors and thus raising greater barriers to entry.

The target patent assets also may support new areas of technology that the acquirer is interested in pursuing, thus broadening its competitive position. The strategic analysis also should consider what patent licenses the target company may have given or received.

These are merely generic examples of the types of strategic relationships that may exist between the acquirer's intellectual property and the target patent assets. In each scenario, the acquirer needs to determine how the target patent assets complement, extend or reinforce its existing patent assets and how the new portfolio can be utilized, either through litigation and licensing or as a basis for further research and development.

The procedural due diligence is, unfortunately, often the only one conducted. The procedural review generally determines the numbers: how many patents have been filed and issued, the serial numbers and filing dates, any assignments by the inventors, the number of provisional applications filed and the deadlines for claiming priority in subsequent utility applications, and the deadlines and fees for foreign filings.

All of this information is critical, and can certainly drive the valuation of the target patents. For example, it is important to determine whether foreign patent rights are still available, how much time remains to claim priority to a provisional application and whether there is a cloud on title from an inventor who has not assigned his rights.

Yet the overall valuation of the patent assets and whether they should be purchased never can rest on this information alone, even if combined with the strategic

analysis. The quality and tactical analysis must be done for a complete due diligence.

The quality analysis verifies that the strategic goals for the patent assets can be met. The quality analysis evaluates whether the patents satisfy the requirements of 35 U.S.C. Section 112. This analysis determines if the patent provides sufficient information to enable those of skill in the art to practice the invention, describes the inventive concepts claimed, and discloses the inventor's best way of practicing the invention. It also looks at the breadth, scope and defensibility of the claims, and whether the prosecution history limits the scope of the claims.

A quality review also determines whether the patent can cover any new potential applications of the technology that the acquirer may have in mind. Because each company typically targets its products and technology towards a particular niche, its patents often reflect that orientation. If the acquirer intends to repurpose the acquired technology, it must analyze the claims of the target patents to confirm this scope of protection.

In addition, a qualitative review includes an analysis of the prior art, if any, that has been submitted by the target company or provided by the examiner. A patent with a well-crafted specification and claims may provide little protection if the original patentee or the patent examiner failed to identify relevant prior art, particularly in mature and crowded fields.

In attempting to obtain a patent, a patent attorney sometimes makes statements to the Patent and Trademark Office that the claims are limited to certain applications or environments or features. Typically, these statements will be based on the specific examples in the specification and unfortunately can be made without consideration of what new applications, environments or alternative embodiments may be likely in the future.

Accordingly, the qualitative analysis dissects the prosecution history to see if any narrowing arguments or admissions were made that could undermine otherwise broad claims or limit the claims to only the applications or environments disclosed in the specification.

The strategic, procedural and quality analyses then influence the tactical review. This final assessment provides the details of what actions are to be taken in the patent prosecution of the target patent assets to best achieve the strategic goals of the acquirer, strengthen the patent assets, remedy potential defects and expand the scope of patent coverage.

First, for issued patents, the tactical review should identify opportunities for filing continuations of existing applications, particularly those that have been allowed but not issued. Continuation strategies are the best vehicle for expanding claims or claiming other aspects of the invention.

Second, the tactical review should address whether reissue patent applications can be filed to obtain either broader claim coverage where the issued claims are too narrow or to claim inventions that were disclosed but not claimed. These scenarios are often the case in companies that fail, because in an effort to constrain costs during their final stages, they typically instruct patent counsel to take only the claims that the examiner has allowed and give up claims on other inventions or broader claims.

Third, the tactical review should review applications that are being prepared by the target patentee, in order to determine whether the company should include the applications in the acquisition and make any changes, corrections or retargeting of the invention prior to their filing.

Finally, the tactical review can examine the details of potential amendments to existing applications that have been or are about to be examined by the patent examiner. The acquirer should consider preliminary amendments to broaden the claims if no examination has taken place. If the application has been examined, proper timing of amendments is essential to yield the best procedural posture for consideration of the new claims.

In summary, strategic patent due diligence compresses into a single intense analysis the ongoing strategic counseling and prosecution that patent counsel normally should provide. The end result will enable the acquirer to best value the target patent assets and have a clear understanding of what the patent assets being purchased are, how they integrate with the company's existing and intended competitive goals, and what limitations they have.

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