



IP Due Diligence - Everything You Need To Know

Presenters:

Deepika Bhayana, *Dell Technologies*

Jeremy Forest, *The Heritage Group*

Elizabeth O'Brien, *IP Strategy Consultant*

Eric Raciti, *Finnegan*

Linda Thayer, *Finnegan*

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Your Presenters



Deepika Bhayana is a Senior Legal Director for Dell Technologies

Deepika is an experienced intellectual property attorney focused on managing Dell's worldwide patent portfolio, advising various business units of Dell with respect to all aspects of Intellectual Property, negotiating and creatively resolving various IP issues in commercial sales transactions and software licensing, advising on open source licensing and compliance, performing IP diligence for M&A transactions, and providing IP litigation support.

Contact Deepika:
[linkedin.com/in/deepika-bhayana-182750](https://www.linkedin.com/in/deepika-bhayana-182750)



Jeremy Forest is a VP, Strategy + M&A at The Heritage Group

Jeremy Forest has more than 15 years of experience in intellectual property development, licensing and assertion, primarily for startup and early-stage companies in the biotech and diagnostics industries. He currently serves as VP of Strategy and M&A for The Heritage Group, a private equity group based in the Midwest. Jeremy advises the group and its 60+ portfolio companies on product development and commercial growth, with a particular focus on licensing and strategic acquisitions in the areas of materials science, specialty chemicals and biotechnology.

Contact Jeremy:
[linkedin.com/in/jeremy-forest-a549204](https://www.linkedin.com/in/jeremy-forest-a549204)



Elizabeth O'Brien is a former Vice President, Intellectual Property, Medtronic

Betsy is an accomplished in-house intellectual property executive with extensive experience leading teams in all aspects of IP portfolio development, IP portfolio management, IP diligence in M&A transactions, licensing, and litigation support. Betsy now uses her 25 years of large company experience to counsel early-stage companies in building IP portfolios and department infrastructure that support rapid company growth and value.

Contact Elizabeth:
[linkedin.com/in/elizabeth-a-obrien](https://www.linkedin.com/in/elizabeth-a-obrien)

Your Presenters



Eric P. Raciti is a partner in our Boston office

Eric Raciti, managing partner of the firm's Boston office, has more than 25 years of experience advising companies as a trusted advisor on intellectual property matters. He received his formational training in industrial systems engineering, learning the importance of a multidisciplinary approach that includes a marriage of technology and business processes. His training and experience taught him the value of communicating clearly with management, legal, financial, and technical professionals.

Contact Eric:
+1 617 646 1675
eric.raciti@finnegan.com

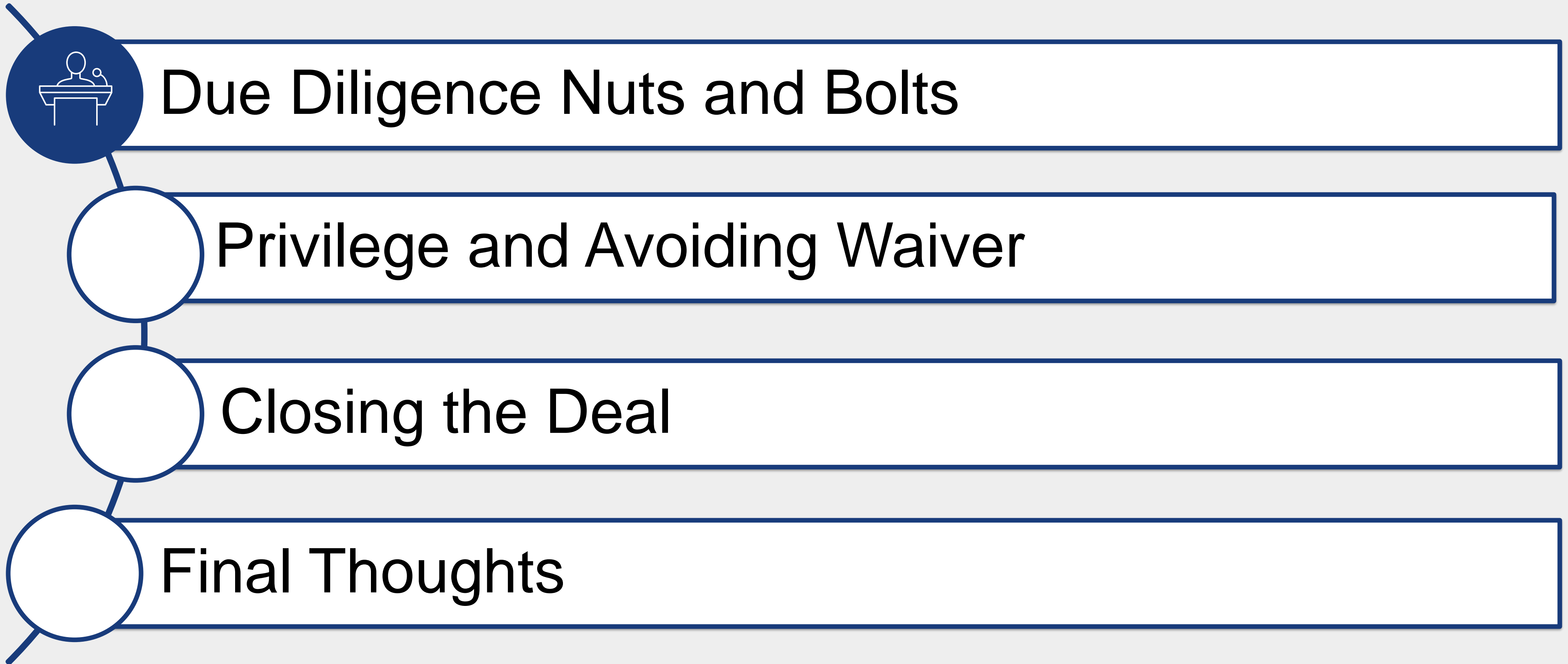


Linda J. Thayer is a partner in our Boston office

Linda Thayer is a unicorn among intellectual property attorneys, a blend of experienced litigator and patent portfolio strategist, with deep knowledge in both patent law and multiple complex technologies. She excels at guiding high tech clients in developing strong intellectual property portfolios and defending their patent assets before the Patent Trial and Appeal Board (PTAB) and in federal courts.

Contact Linda:
+1 617 646 1680
linda.thayer@finnegan.com

Agenda



Clearly Define Objectives and Scope

- Deal expectations and importance of IP drive level of diligence
 - Understand business rationale for the acquisition
 - Deep or shallow dive or even smart read varies based on industry, size, and business rationale
 - Acquisition of pharmaceutical company
 - Venture capital investment in low tech company
- Budget for investigation: Avoid “runaway” investigations
- Time frame for investigation
 - Regular communication with client
 - Inform client about information discovered (e.g., “show stoppers”)
 - Learn from client any changes in strategy or objectives

Basic Categories of IP Diligence

- 1. Freedom to operate/use (“FTO”) target company’s technology without infringing the IP rights of third parties – avoid buying a lawsuit!**
- 2. Scope/validity/enforceability of IP**
- 3. Ownership/Transferability – Clear Title**

Freedom to Operate – Size and Scope of Study

- **Determine breadth of analysis needed**
 - Product only? Manufacturing? Processes?
 - Evaluate role and significance of in-licensed IP
- **Determine level of detail needed and areas of higher risk**
 - Specific feature vs. general device
 - Specific small molecule vs. class of compounds
- **Emphasis on known competitors and inventors**
- **Determine relevant geographic regions**
 - Location of customers, manufacturing, sales force
 - Consider scope, budget, and importance to business

Strength and Scope of Asset Coverage

- **Define relevant target IP**
 - Consider independent portfolio search; compare with data room disclosure
 - Include trademarks, copyrights, trade secrets, open source software (OSS)
- **Identify key IP** (e.g. top 10%, marking, virtual patent notice, TMs)
- **Tier target IP by importance/value to key assets**
- **Evaluate scope of coverage protecting key assets of target**
 - Flag claim construction issues (narrow scope vulnerable to design around or noninfringement arguments, foreign counterparts prosecution)
 - Consider validity, eligibility, written description, definiteness

Ownership and Transferability

- **Can the target company convey clear title of all the relevant IP?**
 - Is the relevant IP owned by the seller/licensor?
 - Does the seller/licensor have the rights it intends to convey?
- **Begin with publicly available information**
 - Assignment database on the U.S. PTO's website
 - Internet search of inventors' backgrounds
 - Verify each inventor's ownership, particularly for non-employee inventors
 - State records for security interests/liens; maybe USPTO recordation

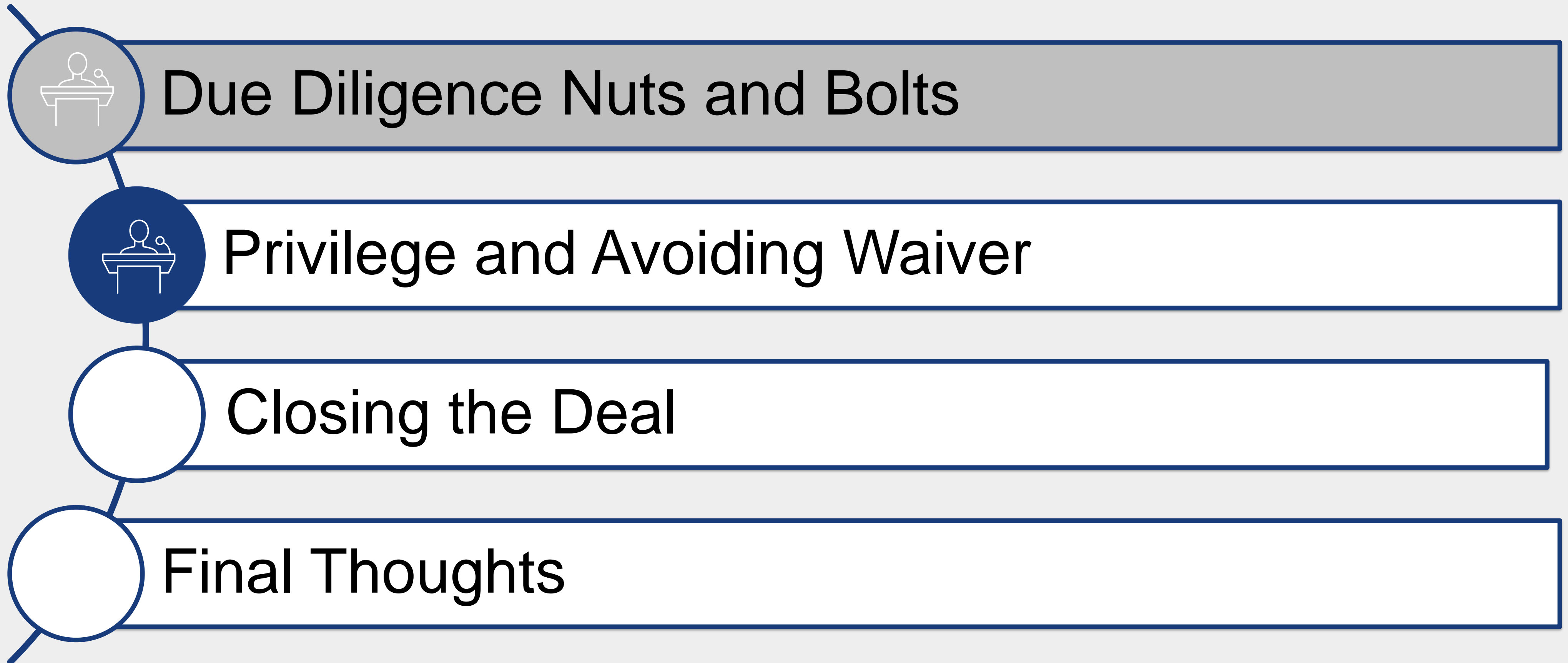
Ownership and Transferability

- **Inventorship determines ownership; contract can amend ownership**
 - Trace assignments back to the inventor
 - Review employment contracts of inventors; obligation to assign?
 - Identify inventor obligations to third parties
 - Identify obligations to third parties (out-licensed rights) in:
 - Licenses – transferability, indemnification clauses
 - Development agreements
 - Joint research agreements
 - Consulting agreements
 - Options
 - M&A transactions
 - Manufacturing Agreements
 - Security interests/liens
 - Settlement agreements/covenants not to sue

Audience Questions & War Stories

- Examples of IP issues that stopped or delayed a deal?
- What are some questions to ask during IP diligence to get info typically missed during IP diligence?
- How important is OSS due diligence? What level of review is needed? How to avoid IP taint?
- How to deal with Security Interests on Patents?
- How best to determine proof of ownership of software and product designs?
- How to handle FTO without access to technical information on a target company's products?

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Privilege and Avoiding Waiver

- Possible risk of waiving attorney-client privilege or work-product protection when certain information controlled by target is disclosed:
 - Opinions of counsel, patent attorney files, or invention disclosure forms
- Waiver could impact either party depending on whether the deal goes through:
 - Target's prior disclosure of opinion during due diligence might lead to a waiver after the target is acquired by another company is or never acquired
- Documents created in due diligence process relate to a business decision and are not inherently privileged

Common-Interest Agreements

- What is a common legal interest?
 - If parties to a transaction share identical legal interests (not solely commercial interests) with respect to subject matter (e.g., enforceability of Target company's patents), communications between the parties regarding *that subject matter* should be privileged and not discoverable in litigation
 - Some states require actual or anticipated litigation for privilege to attach (NY); not Delaware
- Exception to general rule that privilege is waived upon disclosure to a third party
- Does not create an independent privilege
- Can be written or unwritten, though preferred to be in writing
 - can be implied from conduct of parties

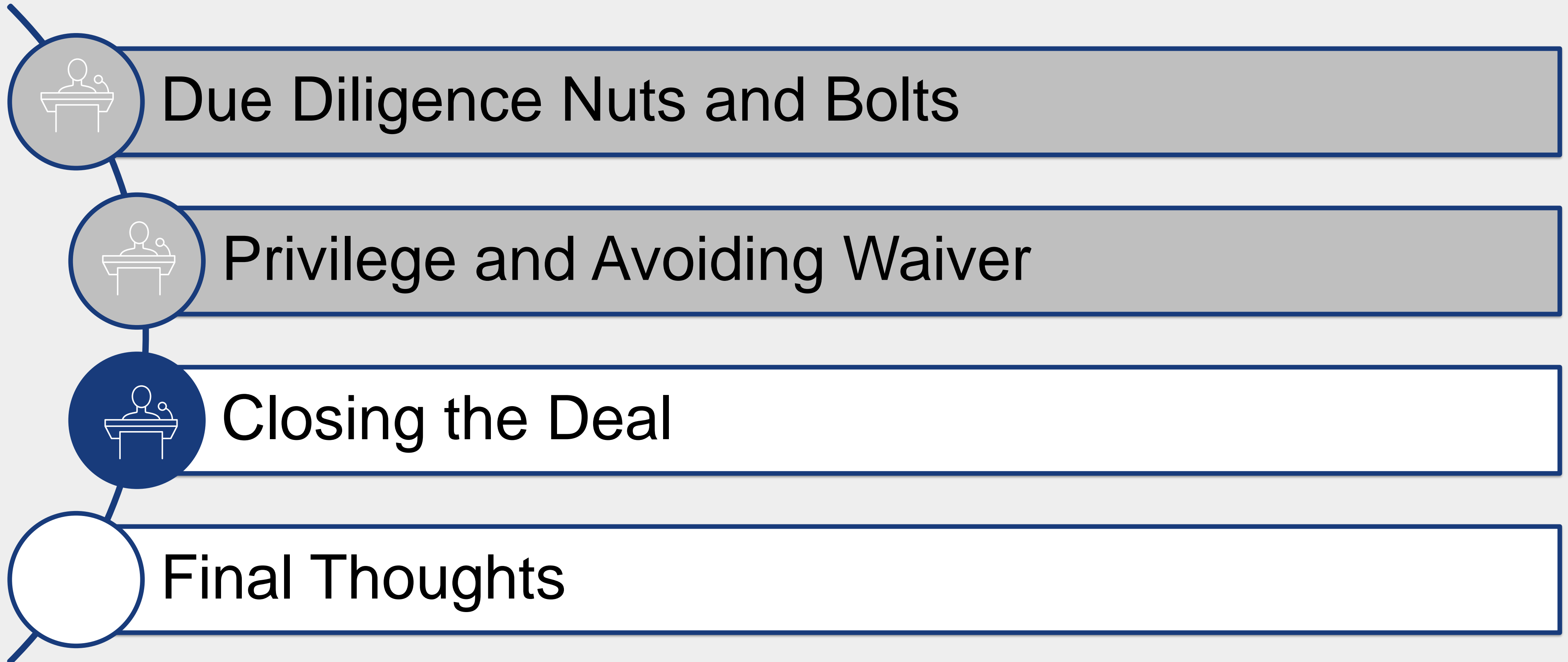
Best Practices for Preserving Privilege

- ✓ Ask Target to disclose known patent and/or assignees without providing privileged information (just the facts)
- ✓ Wait until late in process before disclosing
- ✓ Oral communications
- ✓ Involve U.S. attorneys
- ✓ Consider jointly hiring outside counsel to create common interest

Audience Questions: Privilege

- If an agreement is supposed to be confidential, how can it be shared by a seller during due diligence without breach of contract?

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Resolving Issues from a Buyer's Perspective

Scope/Validity/Enforceability: *Can they be fixed?*

- **File continuations / divisions (US and EPO)**
 - Plug gaps in current claim scope, cover design arounds
- **Certificate of correction (US only)**
 - Correct minor mistakes
- **Reissue (US only)**
 - Broadening within two years of issue
 - Narrowing anytime
- **Ex parte reexamination (US only)**
- **Supplemental examination (US only)**



Opportunity for Strategic Planning

- Think strategically during these analyses to help plug gaps.
- If there is a particular patent that is troubling, does the client have patents that can be used for leverage?
- Is there an opportunity to acquire from third parties patents that might augment the portfolio?
- Are claims of client's existing patents/applications broad enough?
- Can we mine the client's existing applications?

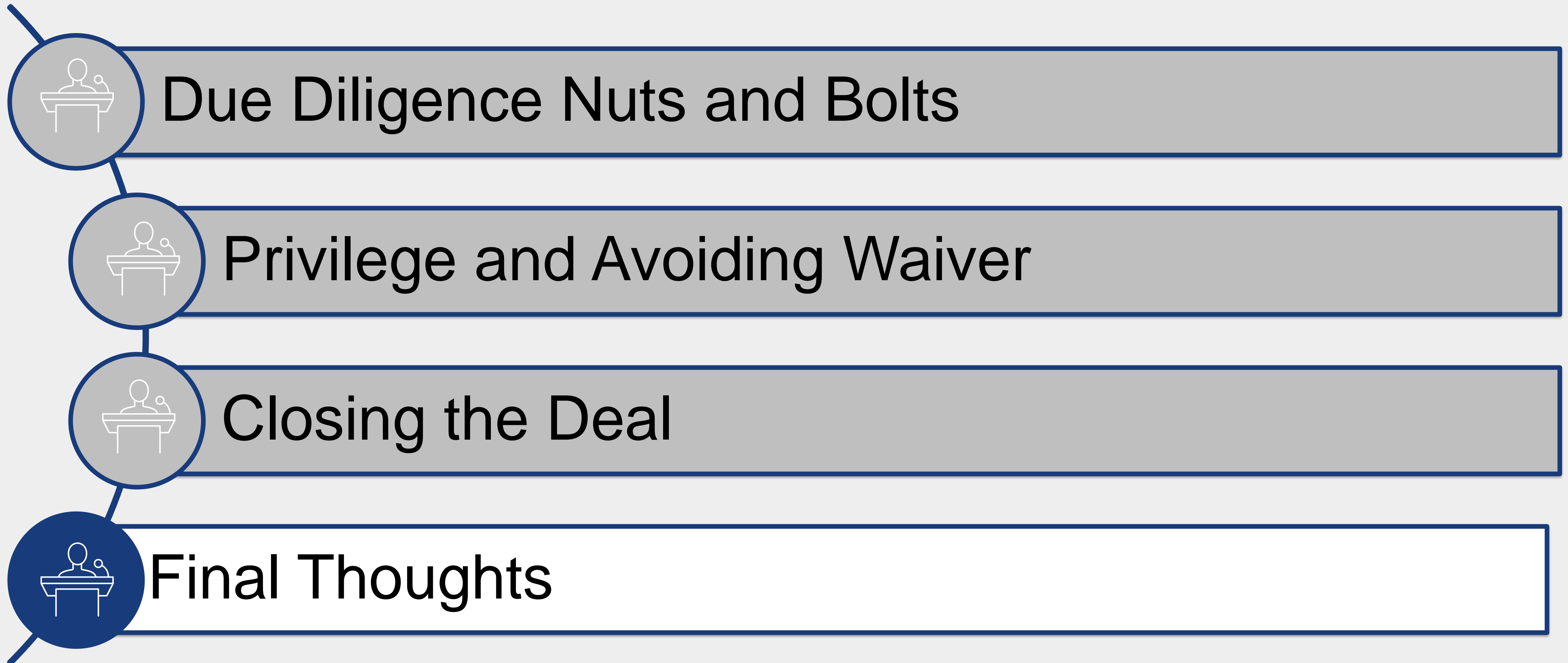
Final Review and Closing Reporting

- Written v. Oral reporting: pros and cons
 - If the transaction goes through, any negative written comments could impair future enforcement efforts
 - Due to concerns about creating a negative record, written comments tend to be more positive (especially if the deal will go through regardless of the IP issues)
 - Oral reporting can be flexible and candid (e.g., discuss significant flaws of target IP along with strengths of the IP)
 - Possible downside: memories fade and people leave
 - No record of issues considered and recommendations provided
 - Hybrid approach - written document with some notes on issues spotted and “ups” and “downsides” equally noted; no comment on them nor any discussion of likely conclusions as to what the outcome might be

Audience Questions: Closing the Deal

- What are some boundaries for disclosure? E.g., personal files?
 - Who has the liability for misplaced or erased documents, the individual or the company?
- When does one feel comfortable with the level of DD that has been done?
- How does OC make their in-house clients feel like their DD is their 1st priority, even though we know it may not be?
- How to test another party's diligence findings?

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Audience Questions: Final Thoughts

- What are additional considerations in an international due diligence?
- Is there a standard minimum level of due diligence that can be applied across the board?
- What pre- and post- closing actions can be taken to proactively manage risk of loss of trade secret/proprietary information due to attrition at the acquired company?
- How to manage contamination risks?
- How should the Buyer respond if Supplier insists on using "to the best of Supplier's knowledge" as a qualifier for IP warranties & indemnity?
- Is there any obligation to reveal diligence findings to the target?

Thank You!

Our Disclaimer

These materials have been prepared solely for educational and informational purposes to contribute to the understanding of U.S. intellectual property law. These materials do not constitute legal advice and are not intended to suggest or establish any form of attorney-client relationship with the authors or Finnegan, Henderson, Farabow, Garrett & Dunner, LLP (including Finnegan Europe LLP, and Fei Han Foreign Legal Affairs Law Firm) (“Finnegan”). Rather, these materials reflect only the personal opinions of the authors, and those views are not necessarily appropriate for every situation they refer to or describe. These materials do not reflect the opinions or views of any of the authors’ clients or law firms (including Finnegan) or the opinions or views of any other individual. Specifically, neither Finnegan nor the authors may be bound either philosophically or as representatives of their various present and future clients to the opinions expressed in these materials. While every attempt was made to ensure that these materials are accurate, errors or omissions may be contained therein, for which any liability is disclaimed. All references in this disclaimer to ‘authors’ refer to Finnegan (including Finnegan personnel) and any other authors, presenters, or law firms contributing to these materials.