Insights: Publications

Tailoring IP Due Diligence for Usefulness Efficiency

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3 KEY TAKEAWAYS

Tailoring IP Due Diligence for Usefulness & Efficiency

San Francisco Partners Paul Haughey and Siegmar Pohl recently gave a presentation to the IP Chapter of the Association for Corporate Counsel (ACC), entitled "Making IP Due Diligence More Tailored, Useful and Efficient."

The key takeaways were:

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The four most important levels of IP Due Diligence, from basic to complex:

Level 1: Ownership (Does the target own or does it have a right to use the IP?)

Level 2: Scope (Does the IP actually cover the business of the target, and does it cover it sufficiently - including the features that sets it apart from the competition?)

Level 3: Validity (Are IP applications likely to result in a registration; can existing registrations be invalidated?)

Level 4: Freedom-to-Operate ("FTO") Study (Will I be sued for infringing third party IP?)

The following are questions that in-house IP counsel may ask its business client (the buyer or investor) and the other side (the target) before even commencing any IP diligence. The answers to these question will allow in-house counsel to direct IP counsel to tailor IP Due Diligence, especially when you are in a time crunch or on a budget:

Key questions to ask the buyer or investor:

1. **What type of transaction is it?** For venture capital investments Level 1 (Ownership) is often revealing, and Level 4 (FTO) is recommended if the start-ups product is early in the development cycle. For asset deals Level 1 has to be very detailed, and Levels 2 (Scope) and 3 (Validity) are important. For stock deals or mergers, Levels 2 and 3 are equally relevant. In addition, frequently Level 4 (FTO) is important because mergers are often driven by the intention to expand into a new field.
2. **What are the buyer's (investor's) strategic objectives or future plans?** If some products will be dropped, diligence of the related IP can be minimized. If other products are contemplated to be expanded into new markets, Level 4 might be crucial.

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Key questions to ask the target:

1. **Does the company own IP in foreign countries?** Involve foreign diligence counsel early for significant markets (In particular for unique IP with no U.S. equivalent or different rules, e.g., moral rights, utility model patents, different rules on patents on medical procedures & software).
2. **Are there any product, services or IP the company has offered for many years?** If so, any lawsuits or other problems are likely to have already surfaced, and less diligence is needed.
3. **Does the company own IP on products it does not use anymore?** If so

3. **Does the company own IP on products it does not use anymore?** If so, diligence on IP that only covers those assets may be skipped, or evaluated for sale or license.
4. **Does the target own any IP that competitors might be interested in?** This could suggest evaluating validity and scope to see if the IP is a good defensive weapon, or evaluating a license or sale valuation.
5. **How was the product developed (what was the source)?** This will provide a roadmap of areas needing investigation for risks. An early conversation with the founders or technology developers can reveal competitors, FTO reviews already done, key people recently hired from a competitor, consultants used, etc.

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