Due diligence is the process of evaluating an asset or portfolio of assets to determine benefits and potential issues. Basically, it’s an assessment of pros and cons.

Due diligence can allow either or both parties to a negotiation the opportunity to drive the value of the offering up or down, as well as to appreciate the underlying problems that must be addressed. The legal hurdles that must be overcome weigh differently for a potential seller and buyer, and often each has different goals in its analysis of the value of an asset. With any given asset, a seller wants to sell high, and the buyer would prefer to buy low. Confidential, or often shielded from certain entities, a due diligence analysis can have an enormous impact on the negotiation process.

Patents present unique due diligence issues. There are a number of approaches that a patent asset seller
can take. Some sellers choose not to perform due diligence and leave it to the buyer, so the buyer will absorb the costs. In the end, however, that will cost the seller more than doing some level of up front diligence, perhaps even before a potential buyer is involved.

A seller should approach the sale from the perspective of the buyer. What will a buyer want this for? Which industry will be most impacted by this asset? This is where an infringement due diligence analysis can be a real benefit for a seller.

Sometimes a seller may prepare generalized claim charts with regard to a specific entity’s product/services. These charts show a potential buyer how the patent claims stack up and can be a good starting point for illustrating its value. Emphasizing infringement by a buyer should be concerned with enforcement and the potential to go after another entity, whether immediately or sometime in the future. Thus, the validity of an asset to be acquired is an important factor in assessing the value.

A validity diligence analysis can help inform a buyer about potential prior art that is not of record and that may affect eventual enforcement. The buyer should be assessing the offering as a defendant would – trying to uncover any applicable prior art, turning over any stone that could limit the scope or enforcement, and trying to discern the area of a non-infringement contention.

Similarly with respect to infringement: A buyer should seek to assess the potential for an infringement action against a third party, whether through charts provided by a seller or independently. In either case the buyer should look critically: The effect can be two-fold. If the asset is pending, then even if the claims have problems, or do not read directly on a competitor’s product/service, additional claims may be drafted that do read directly. A buyer can seek to drive down the cost of an acquisition by discussing the weaknesses with the seller, without divulging the potential correction or removal of the weaknesses in a pending application.

Whether buying or selling, a party should appreciate the cost of correction associated with an asset. A seller should steer the negotiation process on a buyer's behalf while participating in litigation matters, researching applications in a variety of technical fields, while participating in litigation matters, client counseling and opinion work. jfleming@bannerwitcoff.com

Whether buying or selling, a party should appreciate the cost of correction associated with an asset. A seller should steer the negotiation process on a buyer's behalf while participating in litigation matters, researching applications in a variety of technical fields, while participating in litigation matters, client counseling and opinion work. jfleming@bannerwitcoff.com