

Strategic Patent Acquisitions

Evaluating and Acquiring Patent Portfolios



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Authors



CHARAN J. SANDHU

PARTNER

WEIL, GOTSHAL & MANGES LLP

Charan is a partner in the firm's Technology and Intellectual Property Transactions practice. She has extensive experience in assisting technology and life sciences clients in pure patent licensing as well as marketing, distribution and supply agreements, trademark and software licensing, technology transfer, research and development, and the acquisition of technology and intellectual property. She has particular experience in handling cross-border transactions with China.



JEFFREY D. OSTERMAN

PARTNER

WEIL, GOTSHAL & MANGES LLP

Jeffrey is a partner in the firm's Technology and Intellectual Property Transactions practice. He has extensive experience with pure patent licensing, technology transfer, outsourcing, technology integration, content licensing and merchandising.



KYLE C. KRPATA

PARTNER

WEIL, GOTSHAL & MANGES LLP

Kyle is a partner in the firm's Silicon Valley office. He has a broad corporate practice with a particular emphasis on private equity transactions, public and private mergers and acquisitions, distressed and bankruptcy acquisitions and venture capital and growth equity transactions.

Patent portfolio acquisitions have become increasingly common in recent years as companies have recognized the value of patents as transactional goods and the strategic importance of patents to their businesses. This article explores key issues for companies to consider when evaluating and acquiring patent portfolios.

Strategic patent acquisitions have become increasingly commonplace in recent years. Patents have taken a more front and center role in the economy, as business leaders have focused on innovation as a vital key to the continued worldwide economic recovery. At the same time, the exclusionary value of patents has become highly valued outside the context of traditional enforcement and licensing by the original patent owner. In particular, the value of patents as transactional goods has been highlighted by new patent-centric business models, including the increasing prominence of non-practicing entities (NPEs).

These transactions have perhaps been spurred on by the largest patent auction in history, the \$4.5 billion acquisition in 2011 of Nortel Networks patents by a consortium comprised of several large technology companies. Just a month later, Google, having lost at the Nortel auction, purchased Motorola's mobile business arm (Motorola Mobility) for \$12.5 billion, a significant portion of which was estimated to be allocable towards the approximately 17,000 patents and 7,500 patent applications transferred in the acquisition. More recently, in January 2013, Eastman Kodak Co. sold its digital imaging patent portfolio to a consortium of 12 companies led by patent aggregators Intellectual Ventures and RPX Corp. for \$525 million.

Other transactions have included:

- Acacia Research Corp.'s January 2012 acquisition of ADAPTIX, Inc. and its 4G mobile technology patent assets for \$160 million.
- Microsoft's April 2012 purchase of 800 patents (plus a non-exclusive license to over 300 additional patents) from AOL Inc. for over \$1 billion.
- Intel's trio of 2012 acquisitions:
 - the January purchase of approximately 360 patents and patent applications, as well as software, from RealNetworks, Inc. for \$120 million;
 - the April purchase of wireless technology patents from Aware, Inc. for \$75 million; and
 - the June purchase of 1,700 wireless and cellular technology patents and patent applications from InterDigital, Inc. for \$375 million.

Against this background, this article explores key considerations for evaluating and acquiring patent portfolios, including:

- Recent trends in patent acquisitions.
- Strategic considerations, including the motivations underlying patent portfolio acquisitions.
- Process considerations, including typical transaction structures and deal-making contexts.
- Issues to consider when conducting patent portfolio due diligence.

- Drafting and negotiating key provisions of patent purchase agreements, particularly representations and warranties.

RECENT TRENDS IN PATENT ACQUISITIONS

The upswing in strategic patent acquisitions has occurred alongside:

- The rise of NPEs.
- The growth in new patent-centric business models.

THE RISE OF NPEs

Recent years have witnessed a dramatic rise in the prominence of NPEs. These entities do not manufacture or use their patented inventions, but instead seek solely to obtain royalties or other payments from their patents. The rise of NPEs has been accompanied by calls for legislative reform to curtail their proliferation.

The financial success and persistent growth in the number of NPEs has led seemingly unconventional ownership groups, including foreign governments and private equity funds, to invest in them. For example:

- South Korea and France have recently launched patent acquisition companies. As of March 2013, South Korea's Intellectual Discovery (ID), which identifies itself as a defensive alliance, is the listed owner of over 200 US patents. Several prominent South Korean technology companies, including Samsung and LG Electronics have signed up as "shareholders" of ID, providing the relatively new entity with additional revenue in exchange for a license to ID's patent portfolio.
- In October 2011, private equity firm Sterling Partners agreed to purchase Canadian NPE Mosaid Technologies Inc. for \$590 million, evidencing private equity's interest in patent-centric transactions.

GROWTH IN NEW PATENT BUSINESS MODELS

There has also been a discernible shift in the market in recent years towards patent-centric business models. These models build on the exclusionary value of patents, recognizing that patents have demonstrable value and may be used to obtain significant litigation damages and meaningful injunctions, and present a risk to operating companies, who absent a strong patent portfolio may be vulnerable to claims.

Patent-centric business models focus in a variety of ways on the monetization, valuation and sale of patent portfolios. In addition to traditional NPEs, certain market players include:

- Patent and technology development companies.
- Licensing agents.
- Litigation finance and investment firms.
- Patent brokers and auction houses.



The acquisition of additional patents can enhance a buyer's ability to allege infringement against third parties, as well as increase licensing revenue.

- Online patent and technology exchanges.
- Royalty stream securitization firms.
- Patent pools.
- Patent-based M&A advisory firms and hybrid boutique entities that operate as both merchant banks and law firms (for example, Global IP Law Group, Inflexion Point Strategy, Epicenter IP Group and 3LP Advisors).

Commentators have argued that these business models have created a more efficient and transparent patent marketplace by leveling the playing field and establishing a more consistent and fair system of valuation.

STRATEGIC CONSIDERATIONS

There are a variety of reasons why a buyer may seek to acquire patents. While these perspectives can generally be classified in either defensive or offensive terms, there may be other strategic concerns that drive a patent portfolio transaction.

DEFENSIVE MOTIVATIONS

Acquiring patents may help a buyer level the playing field with its competitors or other players in the relevant industry. A buyer with a weak or incomplete patent portfolio may want to strengthen its patent portfolio to:

- Stem the tide of costly and unpredictable litigation. A defensive arsenal may:
 - have the prophylactic effect of warding off potential disputes and lawsuits from plaintiffs that do not want to face the risk of countersuit; and
 - drive parties towards a more favorable settlement once a dispute or lawsuit is initiated.
- Increase its leverage in negotiations over royalty rates in its cross-licensing agreements, whether as part of a settlement or otherwise.

OFFENSIVE MOTIVATIONS

The acquisition of additional patents can enhance a buyer's ability to allege infringement against third parties, as well as increase licensing revenue.

The buyer's intended litigation and licensing targets may be either:

- The buyer's specific competitors.
- More generally, companies in the particular fields relevant to the patents.

The buyer's offensive strategy can be tailored to:

- Protect specific products or product features.
- Give the buyer more generally a protected position in the markets relevant to the patents.
- Grow or expand the buyer's business in order to access and exploit certain technology platforms or enter new product markets.

PROCESS CONSIDERATIONS

A patent portfolio acquisition will often be structured as an asset purchase transaction and entail the assignment of the relevant patent rights. However, where a patent-centric transaction involves the acquisition of an entire company or division, such as Google's acquisition of Motorola Mobility, the transaction can take the form of a stock purchase or merger. Because an asset purchase transaction raises specific considerations involving the transfer of patent rights, this article focuses on that transaction structure.

Patent portfolio acquisitions can arise in at least three types of deal-making contexts:

- Public auctions.
- Private sales.
- Sales out of bankruptcy.

PUBLIC AUCTIONS

Public auctions of patent rights have become increasingly common in recent years. For example, in 2009, NASA auctioned off certain of its patents through the sale of an exclusive license.

Commentators have noted that public auctions can facilitate deal-making through their transparency and, by providing a networking forum for the various players in the strategic patent acquisition space.

PRIVATE SALES

In contrast to public auctions, private sales involve transactions between willing buyers and sellers in a non-public setting. Private sales can be preferable to public auctions in scenarios where a buyer believes that limiting publicity and keeping negotiations private will yield a more favorable price or structure.

BANKRUPTCY SALES

Bankrupt companies have increasingly sought to squeeze value out of their patent portfolios by selling them, either through:

- Public auctions, to demonstrate impartiality and fairness to third-party creditor committees.
- Private sales.

The drawbacks of the bankruptcy framework include the requirement that a court approve the transaction and a potentially lengthy appeals process. For example, in January 2013, a Delaware bankruptcy judge halted the \$5.4 million sale of bankrupt Digital Domain Media Group Inc.'s 3-D film imaging patents to RealD Inc. because of an appeal by a division of Walt Disney Co., which claimed it was granted a license to use the technology by the previous owner of the patents.

CONSORTIA OF BUYERS

In recent years, there has been a growing trend towards using a consortium of buyers in the public, private and bankruptcy deal-making contexts. These consortia pool resources to collectively acquire a group of patents from a seller and, after the transaction, allocate the acquired patents among the consortium members. Each member also receives a license to all of the acquired patents. This has proven in certain cases to be a cost-effective means to acquire patent rights.

Because of their collaborative nature, these consortia may raise antitrust concerns. Antitrust counsel should therefore be consulted to determine what antitrust issues may arise.

PATENT PORTFOLIO DUE DILIGENCE

In a patent portfolio acquisition, due diligence generally focuses on:

- The scope and status of the patent portfolio, including:
 - priority and expiration dates;
 - titles and classification codes;
 - prior litigation and other proceedings involving the patent portfolio; and
 - international coverage.
- Ownership, including recorded ownership and maintenance status.
- Patentability requirements, such as prior art that could affect validity and issues regarding enforceability.

- Liens and encumbrances, including security interests, licenses and standards bodies obligations.

In addition to reviewing issued patents and patent applications, proper due diligence may also cover terminated or abandoned patents and patent applications, as these may provide clues about the seller's prosecution strategy and the value of its patent portfolio.

During the due diligence phase, a buyer may want to develop an ordered ranking of the patents and patent applications in the patent portfolio to, among other things, streamline due diligence and appropriately target resources.

Additionally, to protect attorney-client privilege, attorney work product and other similar privileges, the parties should consider entering into a common interest agreement at the outset of the due diligence phase.

SCOPE AND STATUS OF THE PATENT PORTFOLIO

Performing thorough due diligence on patents and patent applications can require a significant expenditure of time and resources. However, a substantial amount of useful information can be gathered relatively quickly.

While necessarily incomplete, this information may enable a buyer to make an informed, efficient decision as to whether to continue its due diligence approach or pursue a different course of review.

Priority and Expiration Dates

A patent's priority date and approximate expiration date can be determined quickly and to a reasonably accurate degree. Together, the priority date and expiration date provide a substantial amount of information about the potential value of a patent and the patent portfolio as a whole. Later priority dates within a technological field that has already been significantly developed could be a red flag for a potential buyer as to the strength of the patent portfolio. Further, a patent portfolio set to expire soon may be of more limited value.

The priority date is the date on which other inventions and references become potentially invalidating. For example, if a patent has a priority date of January 1, 2000, then a book published before that date could invalidate the patent. The priority date can be approximated from the face of the patent, as earlier applications in a patent family are usually listed as part of the patent.

>> For more information on patent priority dates and prior art, search [Patent: Overview](#) on our website.

It is important to note that as practitioners adjust to the Leahy-Smith America Invents Act (AIA) over the next few years, the due diligence process may need to be modified to address new

concerns. For example, prior to the passage of the AIA, patent applicants had the ability to “swear behind” references that were published, or in the case of patents, filed, less than 12 months before the effective priority date for a patent. Because the AIA has changed the US patent system from a “first to invent” to a “first to file” system, it no longer allows inventors to swear behind a reference (35 U.S.C. § 102).

>> For more information on the AIA, search [Leahy-Smith America Invents Act: Overview](#) on our website.

The expiration date of a patent can also be estimated from information on the cover of a patent simply and with a good degree of accuracy. The most important piece of information is the filing date of the earliest filed non-provisional application from which priority is claimed. If the filing date is on or after June 8, 1995, then the life of the patent will likely be 20 years from that date (*Manual of Patent Examining Procedure* (MPEP) § 2701). For applications that were pending or still in force on June 8, 1995, the life of the patent is 17 years from the issue date or 20 years from the earliest filing date, whichever is longer.

Another factor that may extend the life of a patent is a patent term adjustment pursuant to 35 U.S.C. § 154(b), which allows additional time due to a prosecution delay by the US Patent and Trademark Office (USPTO). Separately, where the patent portfolio covers patents in the pharmaceutical industry, the Hatch-Waxman Act provides a patent term extension for patents covering certain products and methods, including human drug products, that are subject to Food and Drug Administration (FDA) approval (see 35 U.S.C. § 156 and *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990)).

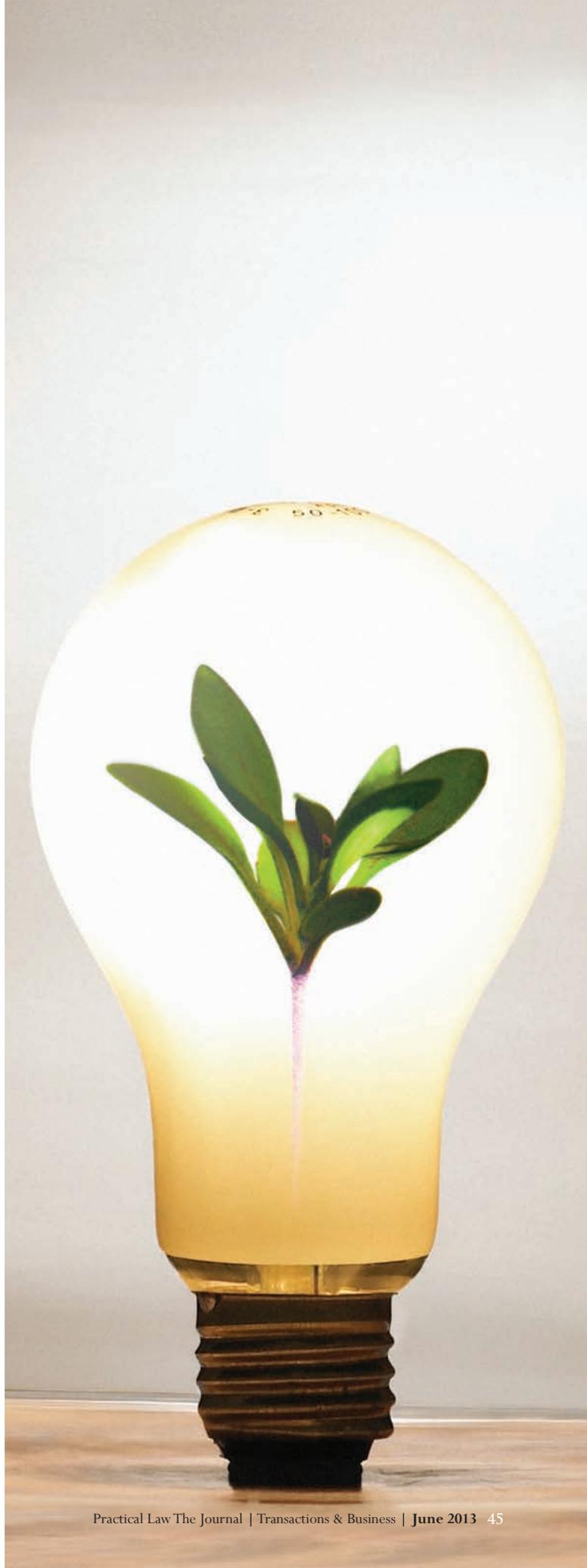
A patent may be subject to a terminal disclaimer that limits the life of the patent in exchange for avoiding certain types of rejections (35 U.S.C. § 253; MPEP § 2701). Any terminal disclaimers will also be indicated on the cover of the patent.

Titles and Classification Codes

Additional information which may be quickly gathered are the patent titles that describe the patents and the set of classification codes for the various patents. Every patent is assigned a code that designates the area of technology it purports to cover. While these codes can be imprecise, they can help a practitioner dealing with a large patent portfolio to rapidly get information on the different technology areas generally relevant to the patent portfolio.

Litigation and Other Proceedings

A search for patents that have been involved previously in litigation and other public proceedings may be performed relatively quickly. If any litigation is identified, further inquiry may be required, as statements made in litigation and any



rulings by a judge regarding a patent's coverage may diminish the patent's value.

The buyer should also confirm whether there are any reexaminations, interference and derivation proceedings, post-grant challenges or other procedures impacting the patent portfolio. Statements made and actions taken in these contexts may also diminish a patent's value.

Additionally, the buyer should request all relevant information and documentation relating to any pending litigation matters and other proceedings concerning the patent portfolio and consider evaluating all potential claims and defenses that have or could be brought in these matters and proceedings.

International Coverage

The international coverage of the patent portfolio can be generally ascertained by searching for patent families of US patents and patent applications through well-known search tools, such as Thomson Scientific, PatBase or Dialog. Other search tools like ESPACE and Derwent may be useful for information relating to certain international patents. While the AIA has taken steps to further harmonize US patent law with foreign patent laws, differences remain in the various bodies of patent law. In cases where foreign patents are important, it may be useful to consult with legal counsel in the relevant foreign jurisdictions to determine if there are applicable local requirements.

A buyer should consider that in contrast to the US, the European Patent Convention (EPC) and national laws of European countries explicitly exclude business methods "as such" from patentability. Additionally, protection under the EPC for computer software and medical-related inventions is more limited than in the US.

There are also differences in foreign patent laws regarding inventor remuneration obligations, which may require companies to pay specific compensation to inventors upon the patenting of an invention in certain jurisdictions.

PATENT OWNERSHIP

Reviewing the ownership of a large patent portfolio may be laborious and expensive, particularly where a patent has been transferred multiple times, either alone or in connection with its owner's other assets. In certain cases, a buyer may want to carefully tailor the review and limit detailed verification to the more material patents and patent applications in the patent portfolio.

In the US, patents and the technologies described and embodied within their respective specifications and claims, are created and initially owned by individual inventors rather than by entities or institutions (see *Stanford v. Roche*, 131 S. Ct. 2188 (2011)). This is generally the case even where an employee

conceives of an invention or reduces it to practice in the course of his employment. There are two exceptions to this rule:

- An employer owns an employee's invention if the employee is a party to a written invention assignment agreement.
- Where an employee is hired to invent something or solve a particular problem, the property of the invention related to this effort may belong to the employer (see *Banks v. Unisys Corp.*, 228 F.3d 1357, 1359 (Fed. Cir. 2000)).

However, in the latter case, the employer will have the burden of proof to demonstrate ownership. It is therefore important to check for valid assignments from each inventor to the seller, as well as to any predecessor entities, where appropriate.

Copies of relevant written instruments should generally also have been filed in the public records to form a complete and unbroken chain of title from the inventors of each patent through to the seller. This is particularly important where the patents have been previously transferred to another third-party acquirer. While recordation is not required for valid assignment in the US, it provides protection against subsequent purchasers without notice claiming ownership interests in the patent due to a competing sale (35 U.S.C. § 261).

As part of its ownership review, the buyer should confirm whether any of the patents are jointly owned. Under US law, joint ownership can be problematic because any one owner is able to exploit or license a jointly-owned patent, regardless of the wishes of the other owners or any buyer, without any duty to account to the other owners (35 U.S.C. § 262).

When reviewing the record ownership of the patents, the buyer will also want to confirm that all of the patents and patent applications are otherwise in good standing. For at least all of the key patents in the target patent portfolio, the buyer should:

- Verify that applicable US and foreign maintenance fees have either been paid or are payable and all other required filings have been timely made.
- Determine the status of important pending patent applications, including the existence and status of any office actions.

DETAILED PATENTABILITY REQUIREMENTS REVIEW

Depending on the size of the transaction and the length of time a buyer has for evaluation, a prospective buyer may wish to conduct further detailed analysis on issues relating to:

- Validity.
- Enforceability, including issues that may arise from inequitable conduct or patent misuse.
- Other patentability requirements, such as correct inventorship and enablement.



Patent-related liens and encumbrances may range from a financial institution's security interest in certain patents to grants of non-exclusive or exclusive licenses.

- Statements made in the prosecution history, litigation or other proceedings that may affect the interpretation of patent claims.

Where the patent portfolio is smaller or the buyer is able to quickly identify key patents, the buyer may want to focus on claim scope to gauge the breadth of protection afforded by the patents.

A buyer may also want to undertake a review of potential third-party infringement. This may include developing claim charts mapping the coverage of various claims to products or services of third parties against which the buyer may want to offensively assert the patents.

LIENS AND ENCUMBRANCES

It is generally important for the buyer to analyze any liens and encumbrances that may detract from the value of the patent portfolio and, in the case of encumbrances, preclude the buyer from bringing a claim under the patent portfolio against particular third parties. Patent-related liens and encumbrances may range from a financial institution's security interest in certain patents to grants of non-exclusive or exclusive licenses.

The acquirer of a patent generally takes the patent subject to any liens and encumbrances. That is, these obligations are deemed to run with the patent automatically and must not be formally assumed. However, contractual obligations apart from licenses will not ordinarily be conveyed with a patent

as an encumbrance, unless a buyer specifically assumes these obligations in addition to the patent purchase.

US courts have consistently held that patents are sold subject to existing licenses, even if the licenses are not recorded with the USPTO. The one exception to this general proposition in the US is certain exclusive licenses, where the licensee is granted "all substantial rights" under the patent and the license is effectively an assignment. In these cases, recordation in the USPTO may be required before a conveyance of the patent will automatically be deemed subject to the license. Alternatively, recordation will not be necessary for the patent to be subject to the license if the buyer is already on actual notice, either from the seller or otherwise, of the existence of the license.

Security Interests

A buyer should conduct searches to determine whether banks or any other parties have security interests in any patents in the patent portfolio that would allow them to claim rights to the patents upon the occurrence of certain triggering events. For example, a bank may take a lien on patents that allows it to foreclose and compel a judicially-overseen sale. If the obligation secured by the lien is not paid and the lien is not otherwise released prior to or in connection with the sale of the patent portfolio, the patents likely would remain subject to the lien and the buyer could face the prospect of the seller's bank foreclosing on the newly-purchased patent portfolio.

The buyer's searches should include not only a search of the USPTO and relevant patent registrars, but also a search for any Uniform Commercial Code (UCC) liens filed against the seller. Under US law, security interests in patents are generally perfected by making state-level UCC filings (see *In re Cybernetic Services, Inc.*, 252 F.3d 1039, 1052, 1058 (9th Cir. 2001)). While most practitioners advise their clients to make filings in the USPTO to provide greater certainty of perfection and to ensure that purchasers of patents are on notice, a search in the USPTO is not a substitute for a state-level search. A state-level search should always be performed when considering a patent portfolio acquisition. The buyer will also want these security interests released upon an acquisition.

>> For more information on patents and security interests, search [Security Interests: Intellectual Property](#) on our website.

Licenses

A buyer will want to review all agreements pursuant to which license rights to any patents in the patent portfolio are granted to third parties.

While these agreements will generally need to be provided by the seller, the buyer should also review the various patent registrars for any filings of licenses. In particular, the buyer



will want to confirm if any exclusive licenses have been recorded. An exclusive license grant of “all substantial rights in a patent” is tantamount to the sale of an ownership interest in the patent. A prudent licensee will record the license with the USPTO to ensure that its license rights are not cut off by a subsequent sale of the patents to a bona fide purchaser for value (35 U.S.C. § 261). The buyer should therefore look to see if any of these filings have been made.

In reviewing the seller’s licenses, the buyer should carefully review the scope and duration of the rights granted. The buyer should also analyze the grants for any contingencies, which upon the occurrence of a specified event, such as the proposed transaction itself, could alter the grant. Where the buyer is purchasing a portion of patents from a larger patent portfolio, the buyer should be sure to review the seller’s portfolio-wide licenses and cross-licenses, which may also include licenses to the subset of patents being acquired.

In certain cases, a license agreement may identify patents not by a specific patent or application number, but solely by:

- Subject matter.
- Field of use.
- Associated products or priority date.

Further analysis of the license agreement may be required to determine whether particular licenses attach to the patent portfolio.

It may also be useful to review whether there are any breaches or defaults under the licenses by either party, including, for example, with respect to territory or field-of-use restrictions, that could provide grounds to terminate the licenses.

Other Contractual Obligations

Contractual obligations apart from licenses will not ordinarily be conveyed with a patent unless a buyer specifically assumes these obligations in addition to the patent purchase. In the unique instances where a buyer agrees to assume additional obligations as part of the overall consideration for the transaction, it will be important to review the scope and duration of these obligations. Examples of contractual obligations include:

- Third-party rights to share in royalty proceeds from the patent portfolio.
- Third-party options to expand the scope of licenses granted to the third parties under the patent portfolio.
- Third-party reversionary rights to reacquire the patent portfolio upon the occurrence of certain events, such as changes of control or bankruptcy exigencies.

Covenants not to sue have traditionally been considered personal to the patentee and therefore not binding on a subsequent patent owner (*DataTreasury Corp. v. Wells Fargo & Co.*, 522 F.3d

If the patent portfolio has been previously transferred, it is important for the buyer to confirm that the right to recover for past damages was part of the initial contractual transfer.

1368, 1373 (Fed. Cir. 2008)). However, in 2009 the US Court of Appeals for the Federal Circuit held that in many respects, “a non-exclusive patent license is equivalent to a covenant not to sue” (*Transcore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271, 1274 (Fed. Cir. 2009)). Therefore, although a party could argue that a covenant not to sue could be considered a legal encumbrance that would run with a patent, rather than a contractual obligation the buyer would need to assume, the Federal Circuit has not made this finding.

Buyers should be wary of any patents which are the result of governmental funding, even if only in part, as these patents may be subject to contractual obligations to the government.

Additionally, if the patent portfolio has been previously transferred, it is important for the buyer to confirm that the right to recover for past damages was part of the initial contractual transfer.

Standards Bodies and Patent Pools

A patent deemed necessary for the practice of a specified technical standard may be licensed through the seller’s participation in a standard-setting organization (SSO) to any entity intending to make use of the technology embodied in the standard. When a seller’s patent is a standard-essential patent (SEP), the buyer must review the licensing terms between the member and the SSO to gauge the scope of the seller’s commitment to the SSO. The SSO terms may provide indications of a particular patent’s value.



A seller may be committed through an SSO to license a patent on FRAND (fair, reasonable and non-discriminatory) or RAND (reasonable and non-discriminatory) terms. From a buyer's perspective, these outbound licenses may be acceptable, depending on the reasons for the acquisition and the current and potential licensees under the SSO license. However, if a patent is committed to be licensed on RANDz (reasonable, non-discriminatory and zero cost) terms, it is required to be licensed without any royalty. This renders the patent considerably less valuable or potentially valueless.

For SEPs, buyers should look for standards-related patent letters of assurance as published by the relevant entities. If a patent is an SEP but no assurance letter has been disclosed, this may be indicative of a problem.

>> For more information on patents and SSOs, search [Antitrust Risks in Standard-Setting Organizations](#) on our website.

Similar to SSOs, there may be instances where a seller is a member in a patent pool and has agreed to cross-license specified patents in the patent portfolio in accordance with specified limitations. An example of a patent pool is the Open Invention Network, through which all members may make use of all the Linux-based patents of all other members on a royalty-free basis.

If any of the seller's patents are subject to a patent pool, the buyer should review:

- The scope of the seller's commitment to the pool.
- The terms of membership in the pool.
- The identities of the pool's other members.

PATENT RANKING

When a large patent portfolio is being evaluated, it may be beneficial to scope the various patent families by creating a ranking or scoring system. The system can be based on objective values, such as:

- Patent life.
- The priority date of the patents (as compared to the underlying technology).
- Litigation history.
- International coverage.
- How often a patent is cited.

The system may also take into account more subjective scores, including:

- The coverage and breadth of the claims.
- The size of the potential market covered.
- The ease of design around.
- The threat of the patents ending up being owned by a competitor or an NPE.

- Any potential issues relating to patent exhaustion.

Another option is for the buyer to request that the seller force rank the patents based on parameters which matter most to the buyer. Examples of these factors include:

- Revenue generation.
- Defensive use.
- Strategic use.

While an imperfect metric, these rankings can be used to prioritize resources so that the most thorough due diligence is only performed on the most potentially valuable patent families.

Additionally, in an acquisition where there is a consortium or multiple buyers, a particular buyer may want to rank the patents in order to negotiate a favorable allocation of the patents that will be most valuable to it at the conclusion of the acquisition.

COMMON INTEREST AGREEMENTS

A typical feature of a patent portfolio acquisition is the execution of a common interest agreement at the due diligence phase.

Work product created by attorneys relating to a patent is generally privileged and therefore free from discovery in a future litigation regarding the patent. However, a prospective buyer's review of any work product could destroy this privilege and enable the materials and the conclusions contained in the work product to be used against future patent owners. To help control the risk of the destruction of privilege by due diligence review of patent work product, buyers and sellers often enter into common interest agreements.

Entering into a common interest agreement may not provide complete protection for attorney-client privileged material disclosed in due diligence. Therefore, advice should be sought regarding the specific transaction and the privileged material at issue.

PURCHASE AGREEMENT REPRESENTATIONS AND WARRANTIES

Each patent purchase agreement must be tailored to the specific transaction, including the transaction structure, the parties' relative positions and the relevant industry. However, there are recurring contractual issues relating to representations and warranties that are unique to patent acquisitions.

Representations and warranties are often the most heavily negotiated provisions in a patent purchase agreement. The seller typically seeks to limit the representations to reduce the likelihood of breach. In contrast, the buyer will want to include as many representations as possible in order to

obtain assurances about the quality of the patents it plans to purchase.

The key findings from the buyer's due diligence process will provide it with insight regarding which representations to insist on including in the patent purchase agreement. In addition to the other representations and warranties set out below, patent purchase agreement representations and warranties typically address three general issues:

- Marketable title.
- Validity and enforceability.
- Freedom from liens and encumbrances, including freedom from licenses and other agreements.

>> For a summary of representations and warranties in certain recent publicly disclosed patent purchase agreements, see the complete, online version of this resource. Search [Patent Portfolio Acquisitions](#) on our website.

MARKETABLE TITLE

Given the significant expenses associated with a patent portfolio acquisition, the buyer will want to ensure that the patents are owned by the seller and will be transferred without any undisclosed third-party interests. Due to time or cost restraints, the buyer may not have the opportunity during due diligence to search the public records of the USPTO and UCC filings and review the assignment history of each patent within the patent portfolio. The buyer therefore often negotiates a representation covering clear chain of title.

Similarly, the buyer will want to confirm that all the patents and patent applications are in good standing. The buyer will often seek a representation that all maintenance fees have been paid or are payable, and any other required filings have been made and fees have been paid.

VALIDITY AND ENFORCEABILITY

The buyer typically will want assurances from the seller that the validity and enforceability of the patents will be upheld in the face of any challenges. This is because the value of the patents is contingent on the patents being valid and enforceable. The patents are essentially valueless if these representations are not met.

However, the seller may not be willing to provide a validity and enforceability representation without any knowledge, materiality or material adverse effect qualifiers. The seller will typically argue that there is no perfect means to ascertain validity and, as to enforceability, they will only be aware of the actions they have taken in connection with enforceability. A seller will more often want to make representations in light of its past actions and knowledge regarding the validity and enforceability of the patents. For example, the seller may represent that:

- It is not aware of any information that may cause any of the purchased patents to be invalid or unenforceable.
- It has complied with all duties of candor and has not committed fraud or misconduct in the prosecution of the patents.
- None of the purchased patents have ever been found invalid or unenforceable in any judicial or arbitration proceeding, except for those that may be listed on a schedule attached to the patent purchase agreement.

LIENS AND ENCUMBRANCES

The buyer will ideally want the seller to represent that it owns the patents free and clear of any liens or encumbrances of any kind. As discussed above, patent-related liens and encumbrances may range from a financial institution's security interest in certain patents to grants of non-exclusive or exclusive licenses. A representation covering these interests may be a key representation to the buyer, ensuring that it is aware of all third-party interests that may interfere with its ownership and exploitation of the patent portfolio after closing.

Any exceptions to the representation that there are no liens are typically captured on a schedule attached to the patent purchase agreement, including a list of exclusive and non-exclusive licenses. The buyer will want the seller to further represent that the scheduled list of liens and encumbrances is true, complete and accurate and that copies of all the relevant agreements have been provided to the buyer. This is so the buyer can seek the termination and release of or become comfortable with the transfer of the patent rights subject to certain liens or encumbrances.

A buyer may also seek a specific representation that no exclusive licenses or other exclusive rights have been granted under the patents.

The buyer should be sensitive to whether any of the patents are subject to the obligations of an SSO (see above *Standards Bodies and Patent Pools*). Participation in an SSO often carries with it an obligation to license related SEPs on FRAND terms. The buyer may be uncomfortable with the purchased patents being SEPs and therefore may insist on a specific representation that none of the purchased patents are subject to the obligations of an SSO. Alternatively, for cases in which the buyer is only concerned about compulsory obligations to license on royalty-free terms, the buyer may negotiate a narrower representation that none of the purchased patents are required to be licensed on RANDz or other royalty-free terms.

As part of the transaction, the buyer may require that certain liens or encumbrances identified during due diligence or during the negotiation of the patent purchase agreement are terminated or released prior to the sale. For example, generally a buyer will want liens associated with security interests to be released before the sale.

>> For a model release of a security interest in patents, with explanatory notes and drafting tips, search [Release of Patent Security Interest \(Short-form\)](#) on our website.

OTHER CONTRACTUAL OBLIGATIONS

Separately, or as part of the representation addressing liens and encumbrances, the buyer may also seek a representation and warranty that the patents are not subject to any other contractual obligations binding the seller, such as:

- Covenants not to sue or other grants of rights under the patents, including springing rights.
- Options to acquire or reversionary rights in patents.
- Grants of rights to any recoveries or proceeds received from the enforcement or licensing of patents.

This representation will provide the buyer with complete disclosure of potential issues that may arise in connection with the sale of the patents and cloud ownership, and will allow the buyer to discuss these issues with the seller in advance of the transaction.

ADDITIONAL REPRESENTATIONS AND WARRANTIES

Based on its due diligence and other transaction-specific considerations, the buyer will ordinarily consider seeking additional representations, including representations addressing:

- The listing of the acquired patents in an attached disclosure schedule, including title, patent and application numbers, and application and issuance dates.
- Correct inventorship.
- Where the patents are acquired as part of a larger transaction involving an entire business, the sufficiency of the patents and related intellectual property to operate the business.
- The absence of royalty-free licensing.
- The absence of litigation or other proceedings and any outstanding judgments or orders relating to the patents.
- The absence of restrictions on the transfer of the patents and of any springing obligations or restrictions arising from the transaction.
- The absence of government contracts relating to the patents.
- The absence of any grant or sponsorship by any government, non-profit or private source or under any agreement that adversely affects ownership of the patents.
- The execution of relevant invention assignments, independent contractor agreements and non-disclosure agreements.
- The absence of outstanding compensation or remuneration dues.

>> For information on indemnification, assignment-related provisions and "license-back" provisions in patent purchase agreements, see the complete, online version of this resource. Search [Patent Portfolio Acquisitions](#) on our website.

