2021 NYIPLA TRANSACTIONS BOOTCAMP DAY 5 – M&A DUE DILIGENCE

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DISCLAIMER

The opinions herein are those solely of the speakers,
and do not reflect those of the speakers' organizations or clients.

TODAY'S AGENDA

- Diligence Basics
- Data Room
- Non-Data Room Diligence
- Substantive IP Analysis
- Reviewing Deal Documents
- Problem Solving
- Ethics

DILIGENCE BASICS - TYPES OF M&A

- Types of IP M&A
  - Horizontal, vertical, concentric, market-extension or product extension, conglomeration, stock purchase, asset purchase, collaboration.....don't get bogged down on the corporate transaction details! Focus on IP transfer(s) and technology/science at issue, and determine what to focus your attention. This will guide documents to review and questions to ask (e.g., on conference call with key personnel). For example:
    - Purpose of M&A: to acquire patent portfolio that can be asserted in litigation
      - Documents sufficient to ensure acquiror has standing to sue
      - Documents that may indicate warts (validity/enforceability concerns)
    - Purpose of M&A: collaboration
      - Third party inbound/outbound-licenses

TYPES OF IP TRANSFERS

- M&As typically involve the following types of IP transfers:
  - Full acquisition of target company and all its IP assets
  - Partial acquisition of certain business of target company and related IP assets
  - Collaboration agreements, in which IP is split or jointly owned
  - License agreements
- Many M&As involve multiple types of IP transfers. For example, a partial acquisition may require a license-back by the acquiror to the target of IP that overlaps both the acquired business and the target's retained business.

DILIGENCE BASICS

- Most deals involve different types of lawyers.
- Only a small cohort of those lawyers have relevant experience with intellectual property or underlying technology/science.
- As IP counsel, you will be uniquely suited to spot and advise on:
  - IP-related legal issues
  - Technology/science related issues
- It is your job spot and **to propose solutions** to those issues.

DILIGENCE BASICS – TIMING

- The timeline for conducting diligence will be dictated by factors beyond your control, including:
  - Business/regulatory issues
  - Data room opening
  - Data room population
  - Public announcement of deal
  - Closing date
- Many due diligence tasks will be of the "hurry up and wait" kind!
- Be flexible and patient.

DILIGENCE BASICS – CLIENT INTERACTIONS

- Ideally, **a single line of communication** should flow between the deal lawyers at your firm and the in-house lawyers at the client.

- Without a single line of communication, key issues may be miscommunicated or missed.
- There are exceptions: check with more senior members of the team before communicating directly with client/outside-counsel.

DILIGENCE BASICS – CLIENT INTERACTIONS

- Beware of **memorializing negative issues in writing** without prior client approval.
  - Such written communications may unnecessarily expose the client to liability.
- Ideally, a negative issue should be discussed first with the client on a call.
- If the client asks for a written communication addressing the issue, use appropriate measures to preserve attorney-client privilege.
- Do not identify a problem in writing without also proposing a solution.

DILIGENCE BASICS – OTHER INTERACTIONS

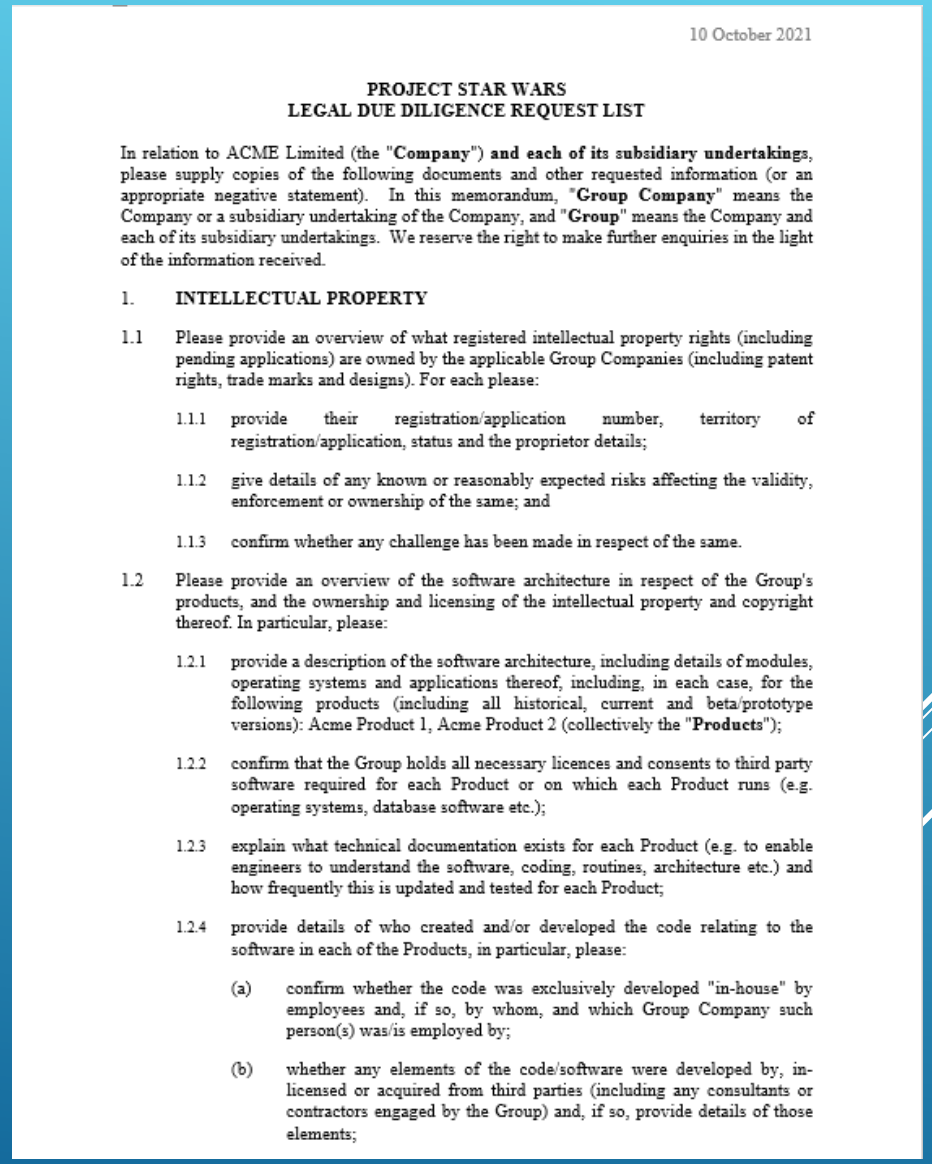
- Interactions with other individuals who are not your client or your firm's attorneys.
- Preserve attorney-client privilege when interacting with them.
- Observe the line of communication.
- If in doubt, ask a more senior attorney at your firm whether/how you should respond to a communication or request from those individuals.
- **Watch out for who is in the "To:" and "cc:" lines when emailing!**

DATA ROOM

- A data room is a secure online (or physical) location that contains the confidential documents of the target company.
- You must sign an NDA as a condition to gaining access to the data room.
- You may have limited access to data room documents (need to know docs., limited only to viewing images, no printing, downloading or copying allowed).
- The organization and content of the data room will vary with each deal.
- The organization and content of a data room may change significantly even over the course of one deal.
- **Check the data room frequently for additional documents!**

DATA ROOM – ORGANIZATION

- If possible, organize data room like request list.



10 October 2021

PROJECT STAR WARS
LEGAL DUE DILIGENCE REQUEST LIST

In relation to ACME Limited (the "**Company**") **and each of its subsidiary undertakings**, please supply copies of the following documents and other requested information (or an appropriate negative statement). In this memorandum, "**Group Company**" means the Company or a subsidiary undertaking of the Company, and "**Group**" means the Company and each of its subsidiary undertakings. We reserve the right to make further enquiries in the light of the information received.

1. **INTELLECTUAL PROPERTY**

1.1 Please provide an overview of what registered intellectual property rights (including pending applications) are owned by the applicable Group Companies (including patent rights, trade marks and designs). For each please:

1.1.1 provide their registration/application number, territory of registration/application, status and the proprietor details;

1.1.2 give details of any known or reasonably expected risks affecting the validity, enforcement or ownership of the same; and

1.1.3 confirm whether any challenge has been made in respect of the same.

1.2 Please provide an overview of the software architecture in respect of the Group's products, and the ownership and licensing of the intellectual property and copyright thereof. In particular, please:

1.2.1 provide a description of the software architecture, including details of modules, operating systems and applications thereof, including, in each case, for the following products (including all historical, current and beta/prototype versions): Acme Product 1, Acme Product 2 (collectively the "**Products**");

1.2.2 confirm that the Group holds all necessary licences and consents to third party software required for each Product or on which each Product runs (e.g. operating systems, database software etc.);

1.2.3 explain what technical documentation exists for each Product (e.g. to enable engineers to understand the software, coding, routines, architecture etc.) and how frequently this is updated and tested for each Product;

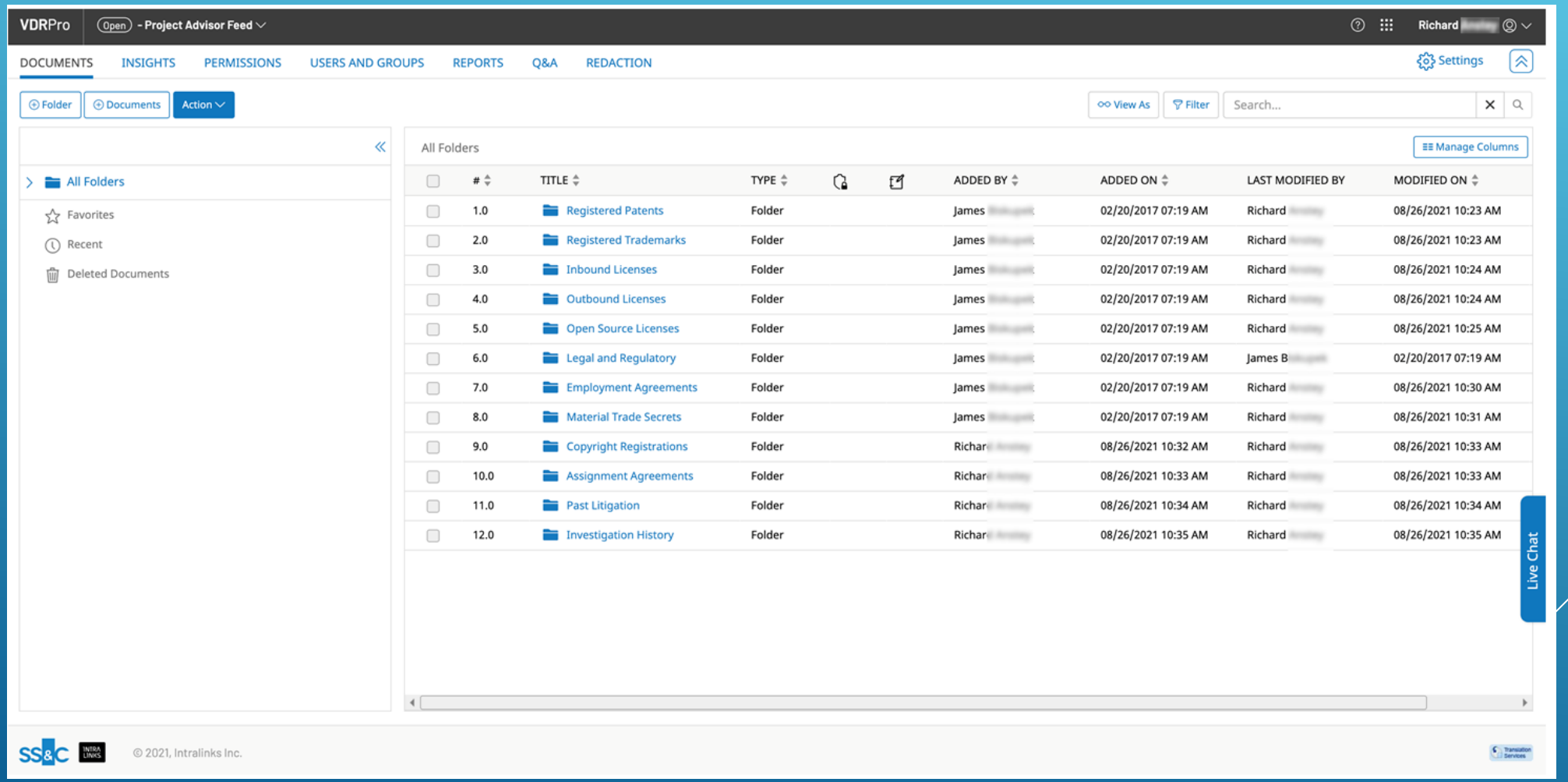
1.2.4 provide details of who created and/or developed the code relating to the software in each of the Products, in particular, please:

(a) confirm whether the code was exclusively developed "in-house" by employees and, if so, by whom, and which Group Company such person(s) was/is employed by;

(b) whether any elements of the code/software were developed by, in-licensed or acquired from third parties (including any consultants or contractors engaged by the Group) and, if so, provide details of those elements;

DATA ROOM – ORGANIZATION

Example data room:



Courtesy of www.intralinks.com

DATA ROOM – MAKING/HANDLING REQUESTS

- Target company may state that request list is overly broad
- Work together to request most relevant documents and if applicable based on stage of negotiations (e.g., are fundamentals acceptable, is system compatible, is IP value commensurate with deal, etc.)
- Thorough and complete due diligence still must be performed

DATA ROOM – EXAMPLE RE PATENT DOCUMENTS

For patent diligence purposes, typical minimum request includes the following documents:

- All patents and patent applications assigned to the target, and prosecution histories thereof
- All patents and patent applications in- and out-licensed by target, and prosecution histories thereof
- All patent assignment agreements to which the target is a party
- All patent in- and out-license agreements to which the target is a party
- Employment agreements between the target and the named inventors of the above-mentioned patents
- Freedom-to-operate and validity analyses for the above-mentioned patents
- Publications of subject matter of the above-mentioned patents
- Litigation documents concerning the above-mentioned patents

DATA ROOM – PATENT DOCUMENTS

- While you should prioritize review of documents directly related to patents, many other data room documents may be potentially important and may even save you time. For example:
  - A general business PowerPoint may list the patents that the target considers most valuable, and the target's loss-of-exclusivity assumptions for key products.
  - FDA or other regulatory documents can disclose manufacturing processes for the products, which processes the client may want to have analyzed for FTO.
  - The "other contracts and agreements" folder may include end-user IP licenses that do not permit transfer of the target's licensee rights.
  - Patent marking compliance.

NON-DATA ROOM DILIGENCE

- Several aspects of IP diligence can be addressed before the data room is open, using non-confidential resources. For example:

SEC Edgar https://www.sec.gov/edgar/searchedgar/companysearch.html	Significant litigation, IP agreements and licenses, information re potential on-sale or public-use bars, regulatory issues
Espacenet https://worldwide.espacenet.com/	INPADOC patent families, US and EP prosecution histories, EP opposition proceedings
USPTO PAIR https://portal.uspto.gov/pair/PublicPair	US prosecution histories, US continuity data, recorded assignments of US patents, PTAs
Docket Navigator	US patent litigation
Darts IP (Clarivate)	Worldwide patent litigation
Derwent Innovation (Clarivate)	INPADOC and DERWENT patent families, projected expiration dates

NON-DATA ROOM DILIGENCE

- Non-confidential resources can be used before the data room is open to make a preliminary assessment of:
  - Chain of title to relevant patents
    - Note that recordation of patent assignments and licenses at USPTO PAIR and EDGAR is voluntary; thus, not all relevant assignments and licenses may be publicly available.
  - Scope (claim coverage and geographic) of target patent estate
  - Potential patentability/validity issues
  - Potential issues concerning non-employee inventors and third-party co-assignees or licensees

SUBSTANTIVE ANALYSIS OF TARGET PATENTS

1. Assess Chain Of Title

- Ensure that key patents have clear chain of title from inventors to target by analyzing all relevant agreements.
- Ensure that there are no limitations in any agreements that may impede the acquisition of patents by acquiror.
  - Review target's agreements with third parties (co-assignees, licensees) to ensure that none include restrictions on acquisition of target's patents by acquiror.
  - Resolve any such issues through novations/side letters with third parties.

SUBSTANTIVE ANALYSIS OF TARGET PATENTS

2. Assess Scope Of Patent Estate

- Identify all issued patents and pending patent applications, including all family members.
- Identify filing dates and putative priority dates for each patent family.
- Summarize claim and geographic scope for each patent family.
- Note any variation in inventive entity among different members of each family.
- Estimate, if possible, expiration dates for each patent family.
  - Include PTA/PTE where applicable.
  - Assess potential double patenting issues.

SUBSTANTIVE ANALYSIS OF TARGET PATENTS

3. Assess Strengths And Weaknesses Of Patent Estate

- Review status of pending patent applications and summarize patent office rejections.
- Review status of any pending patent post-grant proceedings.
  - USPTO PGRs/IPRs
  - EPO opposition proceedings
- Review status of any pending patent litigation.
- If requested by the client, conduct FTO and validity analyses, respectively, for target's key products and patents.

FTO AND VALIDITY ANALYSES

- As part of the diligence, your client may ask you to conduct a freedom-to-operate (FTO) analysis of the target's key products.
- Your client may also ask you to conduct a validity analysis of the target's key patents.
- FTO and validity analyses differ in that:
  - FTO analyses focus on the **present:** unexpired or about-to-issue patents owned by a third party that may cover the key products and thus may subject the acquiror to infringement liability.
  - Validity analyses focus on the **past:** prior art that may render the acquired patents invalid for anticipation, obviousness, and/or double patenting. 112 issues also should be assessed.

FTO AND VALIDITY ANALYSES

- FTO and validity analyses are related in that:
  - Prior art identified in a **validity search** can potentially be used to address **FTO concerns**.
  - For example, a prior art reference identified when assessing the validity of the target's patent portfolio may also potentially render a problematic FTO patent anticipated or obvious.

FTO AND VALIDITY ANALYSES

- To search for references relevant to either FTO and validity, consider engaging a third-party search service.
- Before pulling the trigger:
  - Ensure that you have **client permission** to share relevant information about the relevant products and patents with the search service.
  - Ensure that the service can conduct the search within the appropriate time and budget constraints.
  - Ensure that you and your team have sufficient time and personnel to review and analyze the results of the search.

FTO AND VALIDITY ANALYSES

- Search strategies will vary depending on technology. Some search strategies include:
  - Keyword searches (including synonyms and aliases)
  - Chemical structures
  - Sequence searches for proteins and nucleic acids
- Search strategies often involve a tradeoff between comprehensiveness and relevance.
  - Broad searches are more likely capture important references.
  - But broad searches also are more likely to include irrelevant references that must be weeded out.

FTO AND VALIDITY ANALYSES

- Certain technologies (*e.g.*, chemical compounds) are more amenable to FTO and validity searching than others (*e.g.*, software), wherein nomenclature is less uniform and the relevant prior art can include materials, such as trade show brochures, that is difficult to find.

- Even well-defined technologies such as chemical compounds may pose challenges. For example:

  - Conducting searches for claims to nucleotide sequences that display ">80% homology" to a specific sequence.

  - Conducting searches for a finished compound that can be made using several potentially patented intermediates.

  - Reviewing search results which include patents that claim large genuses of chemical compounds.

FTO AND VALIDITY ANALYSES

- The target may have previously conducted its own FTO and/or validity analyses.
- If the target's FTO and/or validity analyses are not included in the data room, consider asking for them.
  - The target, however, may be unwilling to share in view of a potential waiver of attorney-client privilege.
  - "To take advantage of the common interest doctrine the plaintiffs must still satisfy their burden of proving first that the material is privileged and second that the parties had an identical legal, and not solely commercial, interest."

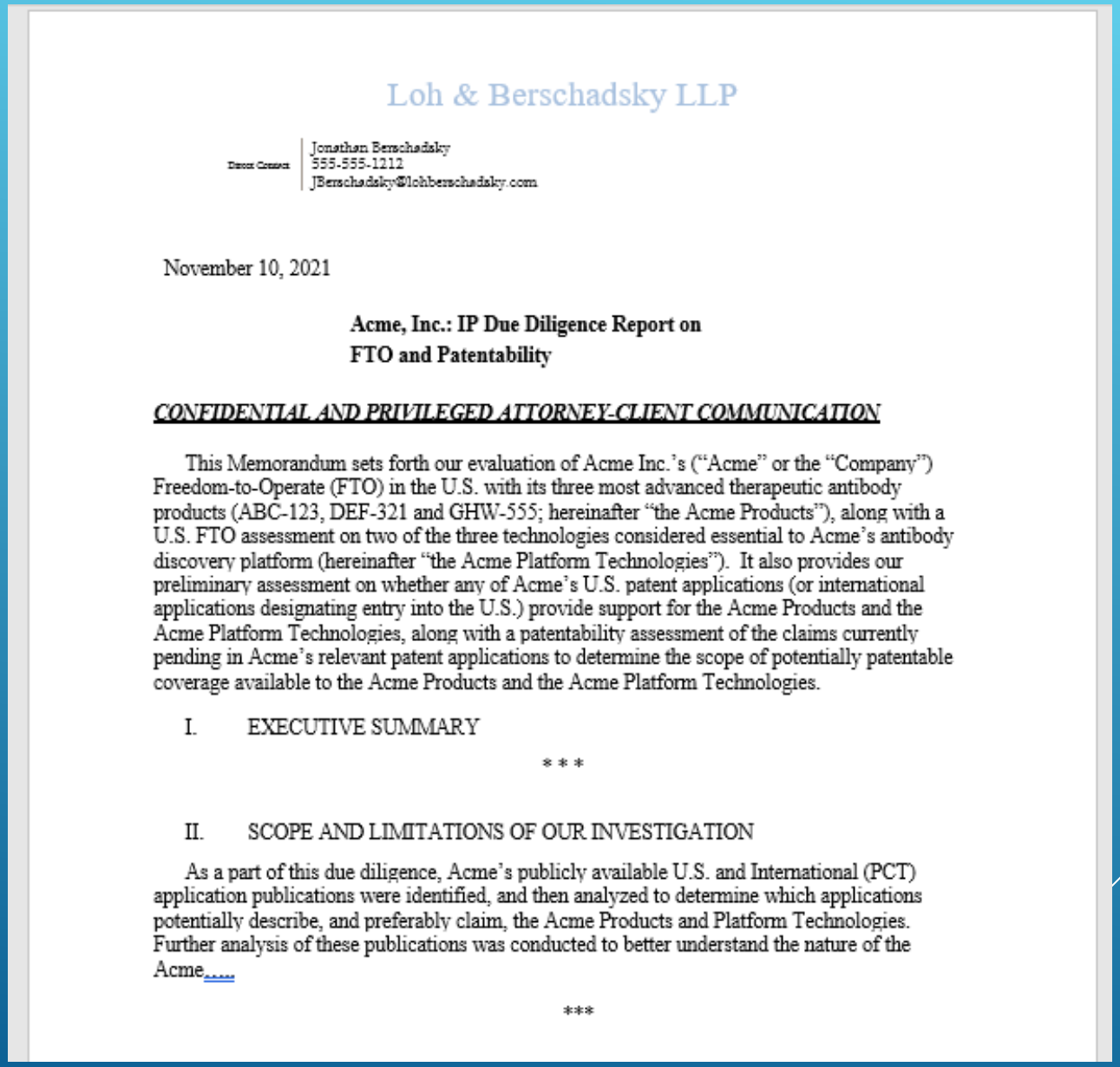
Katz v. AT&T Corp., 91 F.R.D. 433 (E.D. Pa. 2000)

REPORTING ISSUES TO CLIENT

- Ask the client before putting anything in writing.
- Do not identify problems in writing without also proposing solutions.
- State clearly any assumptions on which you are relying (*e.g.*, assumed patent priority and expiration dates, assumed construction of relevant patent claims).
- State clearly any limitations on searches conducted (*e.g.*, search strategy and search terms used, date restrictions on search results).
- Identify the legal authority upon which you are relying. If there are ambiguities, note them.

REPORTING ISSUES TO CLIENT

Sample reporting letter:



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Acme, Inc.: IP Due Diligence Report on FTO and Patentability

CONFIDENTIAL AND PRIVILEGED ATTORNEY-CLIENT COMMUNICATION

This Memorandum sets forth our evaluation of Acme Inc.'s ("Acme" or the "Company") Freedom-to-Operate (FTO) in the U.S. with its three most advanced therapeutic antibody products (ABC-123, DEF-321 and GHW-555; hereinafter "the Acme Products"), along with a U.S. FTO assessment on two of the three technologies considered essential to Acme's antibody discovery platform (hereinafter "the Acme Platform Technologies"). It also provides our preliminary assessment on whether any of Acme's U.S. patent applications (or international applications designating entry into the U.S.) provide support for the Acme Products and the Acme Platform Technologies, along with a patentability assessment of the claims currently pending in Acme's relevant patent applications to determine the scope of potentially patentable coverage available to the Acme Products and the Acme Platform Technologies.

I. EXECUTIVE SUMMARY

* * *

II. SCOPE AND LIMITATIONS OF OUR INVESTIGATION

As a part of this due diligence, Acme's publicly available U.S. and International (PCT) application publications were identified, and then analyzed to determine which applications potentially describe, and preferably claim, the Acme Products and Platform Technologies. Further analysis of these publications was conducted to better understand the nature of the Acme.....

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REVIEWING DEAL DOCUMENTS

While the structure of a deal may be dictated largely by non-IP concerns, your client may ask you to review and comment on provisions of the deal documents.

Because you will likely be one the few members of the diligence team that is familiar with patents and the relevant technology, your input on those provisions can be particularly valuable.

REVIEWING DEAL DOCUMENTS

Reviewing definitions:

- Non-IP counsel may not have the expertise or familiarity to determine whether definitions in the document match the scope of key patents and products.
- You will thus be uniquely situated to ensure that the definitions are technically accurate and align with your client's interests.
- You should review/revise definitions with an eye to ensuring that they match what your client intends to acquire or transfer as part of the deal.
- Pay close attention to geographic, temporal and field-of-use limitations in the definitions!

REVIEWING DEAL DOCUMENTS

Reviewing IP assignment and licensing provisions:

- Exclusive or non-exclusive assignment or license?
- Geographic scope?
- Right to transfer, license and/or sublicense included?
- Any carve-out of standard patent rights (make, use, sell, offer for sale, distribute, import)?
- Any field-of-use limitations?
- Any reservation of rights by target, successor or third parties?
- **Limitations on an assignment/license can affect standing to sue.**

REVIEWING DEAL DOCUMENTS

Other deal document provisions relevant to patents/IP:

- Ownership of future or joint IP
- Prosecution/litigation responsibilities and cost-sharing
- Key employee/resource sharing
- Representations and warranties
- Non-compete provisions
- Indemnification provisions
- Survival provisions
- Patent/IP schedules

PROBLEM SOLVING

A client will not want to hear about a problem without also being presented with a potential solution!

Communicating a problem to a client without proposing a potential solution also may expose the client to liability.

PROBLEM SOLVING

Potential solutions to restrictions on transfer of patent rights to acquiror:

- Novation allowing acquiror to substitute in for target in an existing agreement
- Side agreements
- Written consent to acquisition

PROBLEM SOLVING

Potential solutions to patent claim scope/validity issues:

- Continuation/divisional applications
- Request for continued examination (RCE)
- Reexamination and reissue
  - But look out for potential intervening rights issues!
- Walk away?

PROBLEM SOLVING

Potential solutions to FTO issues:

- Licensing problematic patents
- Obtaining opinion of counsel re non-infringement and/or invalidity
- Pre-grant patent proceedings, *e.g.*, IPRs/PGRs
- Declaratory judgment litigation
- Using representations and warranties and indemnification provisions
- Walk away?

ETHICS CONSIDERATIONS

- **Preserve the confidentiality of the deal until its public announcement.**
  - Follow provisions of all NDAs.
  - Maintain single line of communication.

- **Maintain attorney-client confidentiality.**
  - Against other individuals working on the deal.
  - Against third party search services.

- **Avoid exposing client to liability on potentially negative issues.**
  - Don't write on potentially negative issues unless asked to do so by the client.

QUESTIONS?