

## “IP licensing due diligence that creates value (or avoids the loss of value)”

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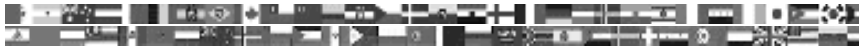


## Overview

- Why do it?
- What is it?
- Who should do it?
- What are the stages of the process?
- What are some of the key components in a transaction due diligence?
- How should a transaction due diligence be done?
- Key points.

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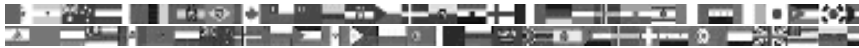
## Why do it?

“Whether you intend to enter in to a licence as a licensor or as a licensee you should know as much as possible about the commercial, financial, legal, IP and scientific environment into which that licence will place you, as well as the risks and opportunities arising from that environment.”



## Why do it?

- “Show stopper” issues identified – avoid wasting time and money;
- Opportunities identified – leverage;
- Risks identified – to negotiate a way; remainder to manage;



## Why do it?

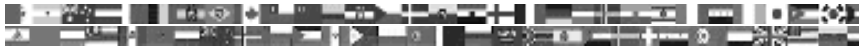
- “Knowledge is power” (Francis Bacon – 1561-1626) ...

but you have to know what to ask and what the answer means to create the knowledge in the context of an IP licensing due diligence (Adam Liberman - 2009)



## What is it?

“A due diligence is an investigation that will provide you with as much information as is available and accessible for you to understand and deal with the environment, risks and opportunities presented by an IP licensing deal or a potential IP licensing deal.”



## What is it?

- Commercial – our focus;
- Financial;
- Legal – our focus;
- IP – patent and confidential information, our focus;
- Scientific.

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### Key Point

*You must consider what impact the results of each area of investigation has on the other, rather than merely considering such results in isolation – i.e. knowledge is better created in a matrix than in a silo.*



## Who should do it?

### Key Point

*It is just as important for a licensor to conduct a due diligence as it is for a licensee. It is merely that each party considers matters from a different perspective.*



## What are the stages in the process?

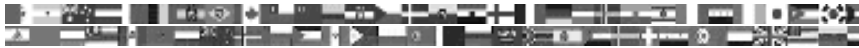
- Searching for a transaction (Stage 1)
- Dealing with a transaction (Stage 2)



## What are the stages in the process?

### Stage 1 – Searching for a transaction

- Investigations, including:-
  - Landscape for IP rights that are being licensed;
    - from a licensor's perspective, what is competitive;
    - from a licensee's perspective, what is available.
  - Market (if any) for goods/services in which IP rights to be licensed are likely to be used;



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## What are the stages of the process?

### Stage 1 – Searching for a transaction:

#### IP landscape

- Why should a licensor understand the IP landscape?:-
  - to assess the extent to which their rights infringe the rights of others or may be infringed by the rights of others (impacts on warranties/indemnities/risk allocation/price);
  - to assess the extent to which competing rights have any advantages or disadvantages over their rights (impacts on bargaining stance/price);
  - to identify possible competitor licensors with a view to understanding their strengths and weaknesses (impacts on bargaining stance); and
  - to assess the extent to which they can expand their rights to fill any gaps revealed by those investigations (impacts on rights available for grant).



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## What are the stages of the process?

### Stage 1 – Searching for a transaction:

#### IP landscape

- Why should a licensee understand the IP landscape?:-
  - to determine what IP rights are available (impacts on what rights are sought);
  - to assess the advantages/disadvantages of competing IP rights (impacts on what rights are sought/price);
  - to identify possible licensors with a view to understanding their strengths and weaknesses (impacts on who a license is sought from);
  - to assess the extent to which they can invent around the relevant rights so as to avoid the need for a licence (impacts on whether a license is sought).



## What are the stages of the process?

### Stage 1 – Searching for a transaction: IP landscape

#### Key Points

- *The investigation of the IP landscape continues into Stage 2 and there becomes more focused.*
- *You must obtain professional assistance to investigate the IP landscape, it is not a “do it yourself exercise”.*



## What are the stages of the process?

### Stage 1 – Searching for a transaction: Goods/Services market

- What market for goods/services, whether existing or to be created are the potential licensor’s IP rights relevant to? (licensor perspective);
- What IP rights does a potential licensee need in order to enter an existing market for goods/services or a market for goods/services yet to be created? (licensee perspective);



## What are the stages of the process?

### Stage 1 – Searching for a transaction:

Goods/Services market

Existing market – licensor/licensee perspectives

- What is the value of the market?
- How sustainable is that value?
- Who are the participants in the market and what is their market share?
- Are there any parties seeking to enter the market?



## What are the stages of the process?

### Stage 1 – Searching for a transaction:

Goods/Services market

Existing market – licensor/licensee perspectives

- How would the relevant IP rights provide advantages to those participants and potential entrants?
- What would be the likely cost/benefit to those participants and potential entrants of the use of the relevant IP rights?



## What are the stages of the process?

### Stage 1 – Searching for a transaction

#### Key Points

- *You must determine a value (range of value) for the IP rights from a proper analysis of the market and keep that value up to date;*
- *You must build the foundation of market intelligence in advance of negotiations and keep that up to date.*



## What are some of the key components in a transaction due diligence?

### Stage 2 – Dealing with a transaction

#### Contexts: licensor/licensee perspectives

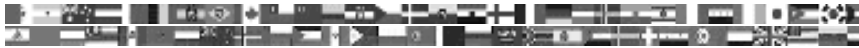
- Commercial negotiation;
- Pre-dispute/litigation situation;
- In the midst of dispute/litigation situation;
- Settlement of dispute/litigation situation;

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- Existing market;
  - New/emerging market;

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Timing: licensor/licensee perspectives

Budget: licensor/licensee perspectives



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to patents/patent applications/confidential information adapted to licensor/licensee circumstances.
  - Who are the inventors of the relevant inventions?
  - In what circumstances were the relevant inventions developed?
  - What laboratory notebooks or other comparable record keeping forms exist in relation to the development of the relevant invention?
  - What public presentations relating to the relevant inventions have been made by any of the inventors?
  - What articles have been written about the subject matter of the relevant inventions?



## What are some of the key components in a transaction due diligence?

### Stage 2 – Dealing with a transaction

- Sample questions relating to patents/patent applications/confidential information adapted to licensor/licensee circumstances.
  - Who are the applicants for the patents in respect of the relevant inventions?
  - Who are the grantees of the patents for the relevant inventions?
  - What is the source of the licensors right to grant licenses? Have all relevant assignments and licenses been recorded?



## What are some of the key components in a transaction due diligence?

### Stage 2 – Dealing with a transaction

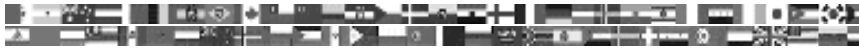
- Sample questions relating to patents/patent applications/  
confidential information adapted to licensor/licensee  
circumstances.
  - What agreements has the licensor entered into with third parties?
  - What restrictions exist in relation to the licensors entitlement to license?
  - What parties other than the licensor have an entitlement in respect of the relevant inventions?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to patents/patent applications/  
confidential information adapted to licensor/licensee  
circumstances.
  - What prior art searches have been undertaken by the licensor/licensee and what do they reveal?
  - What use has been made of the relevant inventions before patent applications have been filed?
  - What is the scope of claims made in the patents and patent applications relevant to each inventions in each relevant jurisdiction?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

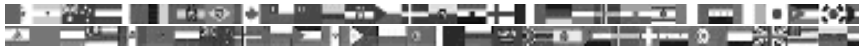
- Sample questions relating to patents/patent applications/confidential information adapted to licensor/licensee circumstances.
  - To what extent do those claims address the licensee's needs and to what extent do those claims infringe any third party rights?
  - To what extent will the licensee need to access rights from parties other than the licensor?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to patents/patent applications/confidential information adapted to licensor/licensee circumstances.
  - Has the licensor/any licensee made infringement claims against any third parties?
  - Has there been any opposition/cancellation proceedings involving the rights being licensed?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to patents/patent applications/confidential information adapted to licensor/licensee circumstances.
  - Have there been any disputes over ownership/inventorship involving the rights being licensed?
  - Are all patent renewal fees up to date?
  - What is the status of all patent applications comprised in the rights being licensed?
  - What is the confidential information that the licensor is to disclose to the licensee?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to patents/patent applications/confidential information adapted to licensor/licensee circumstances.
  - What form is that confidential information recorded in?
  - Who knows that confidential information?
  - What agreements have been entered into in relation to that confidential information?
  - Who developed that confidential information?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

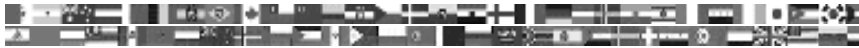
- Sample questions relating to patents/patent applications/ confidential information adapted to licensor/licensee circumstances.
  - In what circumstances was the confidential information developed?
  - Who is entitled to access that confidential information?
  - Who is entitled to use that confidential information?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to the parties to the transaction adapted to licensor/licensee circumstances.
  - What is the appropriate means of identifying the party that is being dealt with? (e.g. companies in Australia have a unique identification number).
  - What does any publicly available information in the relevant jurisdictions companies office reveal about the relevant party?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

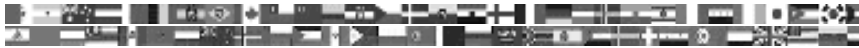
- Sample questions relating to the parties to the transaction adapted to licensor/licensee circumstances.
  - What is the legal standing of the relevant licensor/licensee in their home jurisdiction?
  - What is the financial standing of the licensor/licensee?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to the parties to the transaction adapted to licensor/licensee circumstances.
  - What other parties have entered into deals with the licensor/licensee and what has been their experience?
  - Has the licensor/licensee been involved in, threatened or been threatened with legal or like proceedings in the last 5 years?
  - Who is the champion of this licensing deal within the licensor/licensee, why and what is their standing and tenure within the licensor/licensee?



## What are some of the key components in a transaction due diligence ?

### Stage 2 – Dealing with a transaction

- Sample questions relating to the parties to the transaction adapted to licensor/licensee circumstances.
  - Who within the licensor/licensee is likely to be the principal negotiating party, what are their strengths and weaknesses and what are their motivators?
  - What is the priority of this licensing deal within the licensor/licensee and why?
  - What resources are going to be made available to implement the licensing deal within the licensor/licensee should it proceed?



## What are some of the key components in a transaction due diligence?

### Stage 2 – Dealing with a transaction

- Sample questions relating to the parties to the transaction adapted to licensor/licensee circumstances.
  - Where are the licensee's offices and other sites located throughout the proposed territories of the license?
  - What skills and resources are available at each of those location?
  - What is the position and experience of the licensee in the goods/service market in which the rights are proposed to be licensed?



## What are some of the key components in a transaction due diligence?

### Stage 2 – Dealing with a transaction

#### Key Point

*The more relevant knowledge that can be obtained by a licensor in respect of a licensee and vice versa and the better that knowledge is conveyed to the negotiating team, the greater advantage that party will have in negotiating the relevant deal.*



## How should a transaction due diligence be done?

- Internal investigations – licensor

#### Key Point

*A licensor's internal investigations should very clearly have in mind what the licensee is likely to want to know in their due diligence, so as to facilitate the transaction.*

- External investigations – licensee
  - licensor's documents/information
  - public records/information



## How should a transaction due diligence be done?

### Licensor's controls over licensee's investigations

- A time limit for licensee to conduct investigation;
- An agreed confidentiality structure;
- An agreed arrangement to return or destroy documents/information;
- An agreed arrangement as to the extent to which disclosures contained in the documents/information substitute for representations and warranties;
- Locating documents at a particular physical or website and controlling access;
- Ensuring all questions/answers arising from licensee's investigations are properly documented.



## How should a transaction due diligence be done?

- Providing time limit for raising questions;
- Identifying any “no go” areas for questions;
- Ensuring one point of contact between licensor/licensee;
- If the license does not proceed, monitoring licensee's activities following discontinuance.



## How should a transaction due diligence be done?

### Key Point

*Any due diligence, whether conducted from a licensor's or Licensee's perspective must be undertaken in the setting which understands the value proposition to the party conducting the exercise, the context, the time imperatives and has an appropriate budget to cover all areas of expertise of the due diligence.*



## Key Points

- *You must consider what impact the results of each area of investigation has on the other, rather than merely considering such results in isolation – i.e. knowledge is better created in a matrix than in a silo.*
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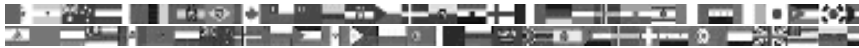
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## Thank you

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