

Boston Business Journal - June 7, 2010
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Boston Business Journal

Friday, June 4, 2010

Tread carefully when in the hunt for fire-sale IP

Boston Business Journal - by [Mary K. Pratt](#) Special to the Journal

As the rough-and-tumble economy continues to take down businesses, those defunct companies could be selling off one of the most valuable commodities in this innovation economy: intellectual property.

And plenty of companies are willing to buy, too, IP lawyers said.

Attorneys involved in such transactions said they've seen an uptick in the number of deals being done. However, the uptick isn't limited to faltering companies selling off their IP portfolios to raise cash. Healthy companies are selling portions of their IP portfolios, too, as they look for ways to boost revenue and refocus corporate strategies.

"Intellectual property is a large and costly investment, and companies are trying to maximize their return on that investment," said David J. Dykeman, a patent attorney and shareholder at Greenberg Traurig LLP.

Whether buying IP — patents, copyrights, trademarks — from a distressed or healthy company, IP attorneys said due diligence is a must.

"As a buyer, you want to get clear title," said John Lanza, co-chairman of the intellectual property group at **Choate, Hall & Stewart** LLP.

Buyers need to understand what limits might come with the transactions, IP lawyers said. Take patents, for example. Buyers need to know whether there are licenses or covenants not to sue attached to patents, or whether there's pending litigation or cease-and-desist letters involving the patented idea, or whether they have patent protection in key international markets.

This due diligence requires skillful and thorough digging that goes well beyond what sellers might disclose, said Robert Underwood, a partner at **McDermott Will & Emery**.

"Sometimes the seller doesn't want to disclose all the details in case the deal doesn't close," he said.

Underwood said the best policy is to get the development teams from both the seller and buyer sides on the same page regarding the scope and depth of the analysis into the IP to ensure the process goes smoothly.

This complex due diligence process can be even more complicated when the sellers are in economic trouble, IP attorneys said.

"In those cases it's more of a buyer beware (situation) because a lot of the information and people who led to the creation of that IP are lost, because people are scattered to the wind," Underwood said. There's a risk that even with due diligence, something could show up — like boxes from pending litigation — after the deal is done.

Steven J. Henry, shareholder and chairman of the IP licensing group at **Wolf, Greenfield & Sacks PC**, said there are both potential benefits and pitfalls of buying IP from distressed companies.

"There certainly are issues that are of heightened concern if the acquisition is from a company that's having difficulties or might be in bankruptcy courts. In many ways, acquiring the rights via the bankruptcy courts reduces risks simply because you can get a cleaner holding. The bankruptcy courts washes out a lot of the other potential claims on the assets, but one still wants to be sure you're getting what you think you want to be getting," he said.

In transactions with distressed companies, he said, buyers need to establish that they're dealing with all the IP owners and that all patents are current or that nothing has lapsed; Henry pointed out that the chances of a company missing a fee payment are generally higher when that company's having financial trouble.

Henry also said the due diligence process can be more difficult once a company gets into bankruptcy court. Buyers often need to move quickly and while they might be able to get a good deal, the courts aren't likely to engage in price negotiations or structured deals that pay out over time.

On the other hand, Lanza said, a distressed seller sometimes makes the whole process smoother because they're motivated to make the deal. He said he has found that they're often more upfront with information because they don't want any surprises to tank the transactions later in the process.