

What They Say vs. What They Mean: Performing Thorough Intellectual Property Due Diligence

Presented to

ACC Northeast

January 23, 2008

Michael H. Bunis



Fish & Richardson P.C.



Agenda

- I. Introduction
- II. Understanding the Goal of a Due Diligence Project
- III. Members of the Panel
- IV. Hypothetical – Scan Corp.
- V. Key Takeaways
- VI. Q & A

What is the Goal?

-  Scorched Earth - business is so closely related to IP, that failure to conduct proper IP due diligence could result in the loss of all value put into the deal
-  Easy Breezy - IP is so unrelated to the core function of the business that is being acquired

Our Team: The Professor



Mark A. Valetti – Senior Patent Counsel, Texas Instruments Incorporated

Dual Reporting Structure: M&A and Deputy General Counsel for Litigation

Degree in Electrical Engineering. Still has a thing for Mary Ann!

Our Team: The Manager



Glen Weinstein: Senior Vice President and General Counsel, iRobot Corporation.

When not managing Legal and HR staff can be found conducting his two boys in late night sessions of Rock Band.

Our Team: The Financier



Jonathan D. Salon: Managing Director and General Counsel, Bedford Funding

“I’ll take your word that the technology is ‘transformative’; but are you making any money?”

Our Team: The No-Show



Andy Feinberg: Senior Vice President, Corporate Development, Business Affairs & General Counsel, Brightcove Inc.

“I hope you got my message from last week that I will not be able to participate. I am really very sorry but there is nothing I can do.”

Scan Corp. – IP Due Diligence Hypo

Scan Corp., a provider of hardware and software used in the manufacture of silicon wafers, is in play. The company, which is less than five years old, has experienced record growth driven largely from several extremely large contracts it signed with integrated circuit manufacturers based in the far east. Scan Corp.'s unique offering is based on a proprietary process for conducting silicon wafer sorts, and the company also employs a confidential automated process to analyze each silicon wafer. Scan Corp.'s intellectual property is protected by five issued United States patents. The Company also has several patent applications pending before the USPTO.

Scan Corp. is managed by a senior management team with extensive technical and operational experience. Prior to founding Scan Corp. in 2002, CEO Noah Ward was the Executive Vice President of a multi-national hardware manufacturer that supplied equipment used in the manufacture of silicon wafers. Scan Corp.'s CTO, Alex Reese, is one of the named inventors on all five of Scan Corp.'s patents.

In 2007, Scan Corp. earned approximately \$30 million on revenue of \$100 million. The Company's revenue mix is made up of licensing fees, hardware sales, and consulting services.

What They Say vs. What They Mean

What they say:

Scan Corp.'s unique offering is based on a proprietary process for conducting silicon wafer sorts, and the company also employs a confidential automated process to analyze each silicon wafer.

What They Say vs. What They Mean

What they say:

Scan Corp.'s unique offering is based on a proprietary process for conducting silicon wafer sorts, and the company also employs a confidential automated process to analyze each silicon wafer.

What they mean:

Our software is based on exactly the same algorithm as our competitors, but we package our hardware in different boxes and we have a great color scheme!

What They Say vs. What They Mean

What they say:

Scan Corp.'s intellectual property is protected by five issued United States patents. The Company also has several patent applications pending before the USPTO.

What They Say vs. What They Mean

What they say:

Scan Corp.'s intellectual property is protected by five issued United States patents. The Company also has several patents applications pending before the USPTO.

What they mean:

One of the inventors on our patents is a disgruntled founder. He never saw eye to eye with our early backers and they are still litigating his separation from the Company.

Also, we forgot to pursue IP protection outside of the U.S.

What They Say vs. What They Mean

What they say:

Scan Corp. is managed by a senior management team with extensive technical and operational experience. Prior to founding Scan Corp. in 2002, CEO Noah Ward was the Executive Vice President of a multi-national hardware manufacturer that supplied equipment used in the manufacture of silicon wafers.

What They Say vs. What They Mean

What they say:

Scan Corp. is managed by a senior management team with extensive technical and operational experience. Prior to founding Scan Corp. in 2002, CEO Noah Ward was the Executive Vice President of a multi-national hardware manufacturer that supplied equipment used in the manufacture of silicon wafers.

What they mean:

Our CEO got tired of working for the Man! Before leaving his old shop, he made use of all of those handy flash drives he had laying around and downloaded a substantial portion of his files.

What They Say vs. What They Mean

What they say:

In 2007, Scan Corp. earned approximately \$30 million on revenue of \$100 million. The Company's revenue mix is made up of licensing fees, hardware sales, and consulting services.

What They Say vs. What They Mean

What they say:

In 2007, Scan Corp. earned approximately \$30 million on revenue of \$100 million. The Company's revenue mix is made up of licensing fees, hardware sales, and consulting services.

What they mean:

We don't have a single non-compete in place for our engineering or sales staff.

Our license renewal rate is very low. We've been giving our stuff away for nothing to grow the top line. The numbers we showed you are *pro forma* – you didn't expect true net income – did you?

4 Big Things to Remember

1. Identify IP that is core to business
2. Determine “Source” of IP
3. Encumbrances
4. Pending or PAST litigation affecting IP

Thank you!

Michael H. Bunis

Principal

Fish & Richardson P.C.

bunis@fr.com

Mark A. Valetti

Senior Patent Counsel

Texas Instruments, Inc.

m-valetti@ti.com

Jonathan A. Salon

Managing Director and
General Counsel

Bedford Funding

jon.salon@bedfordfunding.com

Glen Weinstein

Senior Vice President and
General Counsel

iRobot Corporation

glen@irobot.com