

PatentPC attorney Bao Tran discusses IP due diligence and risk reduction at the Consero IP Leadership Forum

Attorney Bao Tran on how to prepare for IP due diligence and risk reduction in VC funding and M&A transaction at the Consero IP Leadership Forum on Oct 18, 2024

SAN FRANCISCO, CA, UNITED STATES, October 18, 2024 /EINPresswire.com/ -- Bao [Tran](#), [patent](#) attorney and founder of PatentPC, discussed guidance for technology companies and investors on how to prepare for intellectual property (IP) due diligence and mitigate IP-related risks in later rounds of venture capital funding rounds and mergers & acquisitions. Drawing on his extensive experience representing innovative startups and Fortune 500 companies, Tran outlines critical areas of focus and best practices to avoid potential deal-breakers.



Patent Attorney Bao Tran of PowerPatent

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Businesses and inventors must adopt a proactive and strategic approach to IP management by conducting regular IP audits, diversifying protection strategies with evolving legal and policy developments”

Bao Tran

"IP assets are often the crown jewels in tech M&A and VC deals, but they can also harbor hidden risks that threaten to derail transactions if not properly identified and addressed," said Tran. "Thorough IP due diligence and proactive risk mitigation are essential to protect value and ensure smooth deal execution."

Key Areas of Focus for IP Due Diligence

Attorney Tran emphasizes several critical areas that should be carefully examined during the IP due diligence process:

IP Ownership and Sufficiency of Rights

One of the most fundamental issues is confirming that the target company actually owns or has sufficient rights to the IP assets that are driving the deal valuation. This includes inventions, works of authorship, and other forms of IP.

"You need to trace the chain of title back to the original inventors and creators," Tran explains. "There should be clear assignment agreements transferring ownership to the company, typically through employment agreements or consultant contracts."

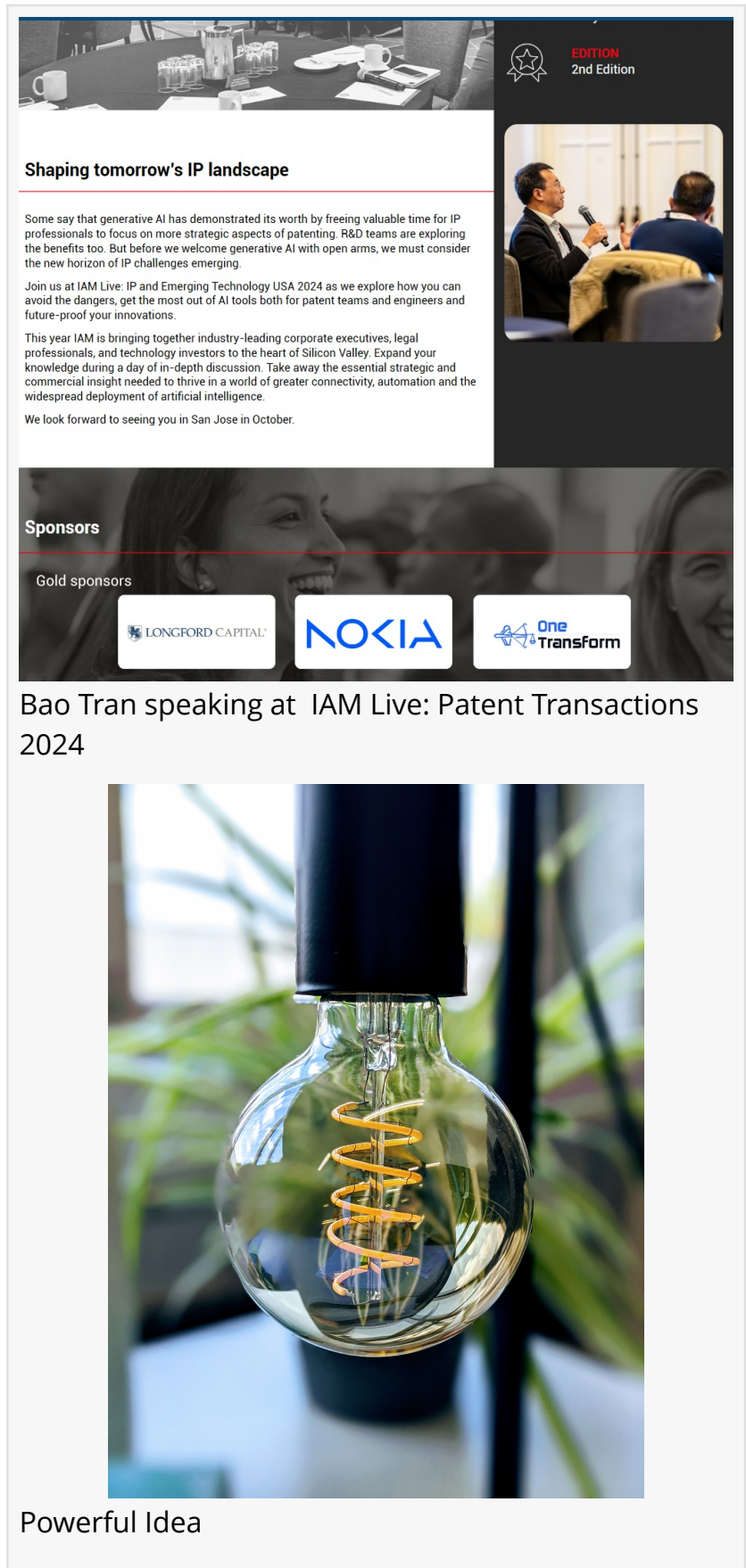
He cites the landmark *Stanford v. Roche* case as a cautionary tale, where Stanford University lost patent rights due to conflicting assignment language in agreements with a researcher who had dual employment. "The specific wording of these agreements matters tremendously," Tran notes. "A 'present assignment' of future inventions is far stronger than a mere promise to assign in the future."

For acquisitions involving university spinouts or companies with academic ties, Tran advises carefully reviewing the IP policies of any affiliated institutions. "Many universities assert broad rights to inventions by faculty and students. You need to confirm there are no competing ownership claims."

Inbound License Rights

Beyond owned IP, companies often rely heavily on inbound licenses for key technologies. Tran stresses the importance of reviewing these agreements to confirm:

The scope of rights granted aligns with the company's current and planned uses



Shaping tomorrow's IP landscape

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We look forward to seeing you in San Jose in October.

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Bao Tran speaking at IAM Live: Patent Transactions 2024

Powerful Idea

Licenses will survive and transfer in the proposed transaction structure

There are no onerous financial terms or other restrictions that could impact deal value

"Pay close attention to any change of control provisions or assignment restrictions," Tran advises. "These could potentially be triggered by the transaction and jeopardize critical license rights."

He notes that even reverse triangular mergers, which typically do not result in assignment of contracts, can sometimes be deemed to trigger anti-assignment clauses for IP licenses based on case law in certain jurisdictions.

Open Source Software Compliance

The use of open source software components is pervasive in modern technology stacks, but can introduce significant risks if not properly managed.

"Certain open source licenses have 'copyleft' or reciprocal licensing terms that could require releasing proprietary code as open source," Tran explains. "You need to map out all open source usage, confirm license compliance, and assess any potential impacts on the commercialization strategy."

He advises companies to implement robust open source policies and tracking systems well in advance of any potential transactions. "Remediation of open source issues can be complex and time-consuming. It's far better to get your house in order proactively."

Springing License Rights

Tran highlights the importance of identifying any agreements with "springing" license rights that could be triggered by a transaction. A prime example is participation in the LOT Network, a nonprofit organization aimed at combating patent assertion entities.

"LOT Network members agree that if they transfer patents to a patent assertion entity, other members automatically receive a license to those patents," Tran explains. "For companies with valuable patent portfolios, this could significantly impact the freedom to monetize those assets post-acquisition."

He notes that while the LOT Network provides important benefits in reducing patent troll risk, companies need to carefully weigh the tradeoffs before joining, particularly if they anticipate



The image shows a promotional graphic for a symposium. At the top right, a yellow diagonal banner reads "The RPD Manifesto". The main text reads "White Book for the 1st World Robot Patent Drafting Symposium". Below this, it says "Cannes, France" and "September 22-23, 2022". The background features a white robot with glowing blue eyes. An Amazon logo is overlaid on the robot's chest. Below the robot, the text "PowerPatent BioTechX First Draft solution for Patents" is displayed. At the bottom, the PatentPC logo is shown, consisting of a red key icon and the text "PatentPC".

White Book for the
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being acquired in the future.

Source Code Escrow Agreements

Many enterprise software companies place their source code in escrow as a form of insurance for their customers. Tran cautions that these agreements need to be closely scrutinized.

"Escrow release conditions sometimes include change of control events," he notes. "You need to understand exactly what rights licensees would obtain if source code is released. In some cases, it could essentially grant a perpetual, royalty-free license to a company's core IP."

Patent Licenses with Affiliate Coverage

Tran warns about the "Trojan horse" risk of patent license agreements that extend rights to future affiliates of the licensee.

"If the target company has granted broad patent licenses covering future affiliates, those rights could unexpectedly extend to the entire patent portfolio of an acquirer," he explains. "This can be particularly problematic for companies with large patent licensing programs or pending patent litigation."

Work-for-Hire Agreements

For companies that provide consulting or development services, Tran notes that work-for-hire agreements with clients can create thorny IP ownership issues.

"If key technology was developed under a work-for-hire arrangement, the client may own the IP rather than the target company," he explains. "This can be devastating if that technology is core to the company's product offerings."

Tran advises carefully reviewing all client agreements to confirm IP ownership and usage rights align with the company's business model and value proposition.

Best Practices for IP Risk Mitigation

One way of dealing with IP risk mitigation is to build a large portfolio [cost](#)-effectively using AI tools such as PowerPatent for prosecution and portfolio building. To further address potential IP issues uncovered during due diligence, Tran recommends several risk mitigation strategies:

Remediation Prior to Transaction

"The cleanest approach is to resolve any significant IP issues before entering into a binding agreement," Tran advises. This could involve:

- Obtaining missing assignment agreements from inventors

- Amending problematic license terms

- Replacing or rewriting code to address open source compliance issues

- Restructuring agreements to clarify IP ownership

Contractual Protections

Where pre-closing remediation is not feasible, Tran suggests using contractual mechanisms in the transaction documents to allocate risk:

- Specific representations and warranties around IP ownership and compliance

- Targeted indemnities for known IP risks

Special escrow holdbacks to cover potential IP liabilities

Covenants requiring the seller to assist with post-closing remediation efforts

Transaction Structuring

In some cases, IP risks can be mitigated through careful structuring of the transaction. "An asset purchase may avoid triggering certain change of control provisions that would be problematic in a stock purchase or merger," Tran notes.

He also suggests exploring the use of transitional license agreements or shared ownership structures in situations where clean transfer of IP rights is challenging.

Insurance

"Representations and warranties insurance has become increasingly common in M&A transactions," Tran observes. "While known IP issues are typically excluded from coverage, insurance can provide an extra layer of protection against unknown risks."

Post-Closing Integration Planning

Tran stresses the importance of developing a detailed post-closing plan to address any IP issues that cannot be fully resolved prior to closing.

Adapting to remote and hybrid work models presents new challenges, requiring secure systems for remote patent work and processes for virtual invention disclosures. Additionally, in-house counsel must stay informed about potential changes to patent subject matter eligibility standards, particularly for software and life sciences inventions, and be prepared to adapt their strategies accordingly. By staying attuned to these trends, in-house patent counsel can better position their companies to protect valuable innovations and navigate the evolving IP landscape in 2024 and beyond.

Attorney Tran will be offering a series of workshops throughout 2025 to help clients and fellow professionals navigate these critical IP trends and develop effective strategies for protecting and monetizing their innovations.

About PATENTPC:

PatentPC (www.patentpc.com) is a distinguished patent law firm based in Santa Clara, California. With a passion for new technology and extracting value from innovative ideas, founder Bao Tran has successfully created foundational patent portfolios for groundbreaking companies such as Align and Shutterfly. His expertise spans various technological fields, and he is committed to helping clients navigate the complex landscape of intellectual property law.

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