

FIGHT FOR THE FUTURE:

Skadden's Ronald Laurie said IP litigators are taking their place in M&A negotiations because clients are concerned about how technology may evolve. "There's a lot of crystal ball work that goes on," he said.

JASON DOY



Pulling Up a Chair

IP litigators are taking a place at the deal table in M&A transactions

By **Renee Deger**
RECORDER STAFF WRITER

Michael Ladra is an intellectual property litigator, but he's spending a lot of time these days working on mergers and acquisitions deals.

Ladra, a Wilson Sonsini Goodrich & Rosati partner, is now a regular at the deal table as companies contemplate whether litigation will result from an M&A transaction.

"They're now more sensitive to the fact they may be buying an expensive IP lawsuit," Ladra said.

Technology companies facing flat sales growth are increasingly using their patent portfolios to build market share by threatening competitors with costly legal fights.

So in addition to drafting the financial details and dividing up the IP, a task typically left to corporate and licensing specialists, deal teams have to weigh future legal risks and sometimes identify who's most likely to sue.

That means IP litigators suddenly have a place at the deal table. Firms like Skadden, Arps, Slate, Meagher & Flom and Davis Polk & Wardwell have hired IP specialists to pitch in on corporate deals. It's somewhat new territory for IP litigators. They are used to discussing risks with their clients, but not with the same time constraints or with the same degree of secrecy as corporate lawyers.

The stakes are incredibly high. Consider Sonicblue Inc., which bought ReplayTV Inc. in August 2001. Within three months of the acquisition, Sonicblue was sued by 28 entertainment companies and three major television networks. The largest case, *Paramount Pictures Corp. et al v. ReplayTV Inc. and Sonicblue Inc.*, 01-09358, is pending in a Los Angeles federal court and centers on key features of Re-

playTV's technology.

Sonicblue's CEO L. Gregory Ballard reportedly complained during a recent industry conference that fighting the disputes is costing his company \$3 million per quarter in legal fees.

Ladra, who regularly advises companies on how to protect their IP, said he devotes about a quarter of his time these days to helping his corporate partners on M&A deals.

He's finding he has to consider how the technology may evolve and be used in the marketplace in the future. "You're generally reading tea leaves, and you're generally constrained," Ladra said.

The new work on mergers and acquisitions has also exposed IP litigators to new dilemmas when it comes to client confidentiality and responsibility.

Claude Stern, a Fenwick & West litigation partner, said he's fielded calls from M&A lawyers who want to know if his clients are the targets of suits or could face future litigation.

"It can be very much a tightrope walk," Stern said. "You want to tell them enough to advance your client's interest, but you don't want the other side relying on you."

Over the past year, Stern has seen a steady increase in the number of inquiries relating to M&A deals and venture capital financings.

Venture capitalists typically order detailed surveys of a prospective deal's IP portfolio so they know what they're buying. But now the investors want to know if they could get sued for funding a particular technology, Stern said.

Steven Weiner, who joined Davis Polk in October, said that with the downturn in the market, clients began demanding very detailed inventories of IP assets that went beyond the list of patents and licenses.

"You're assessing exposure," Weiner said. "It's one thing to assess exposure of something you only

know academically but you need to understand how it plays out [in the market]."

Company executives also consider whether the IP portfolio they're buying in an M&A deal could be useful in suing competitors.

David Healy, a Fenwick & West M&A partner, has seen companies buy technology with the sole purpose of patenting it and then filing infringement claims against competitors. "It's clear that offensive and defensive patent considerations are becoming an increasingly important driver in M&A deals," Healy said.

Ronald Laurie, who joined Skadden in 1998, said most of the negotiations in a deal involve IP issues and, increasingly, clients want to know how companies may use technology in the future.

"Nobody knows how the technology is going to evolve," Laurie said. "There's a lot of crystal ball work that goes on."

But the current emphasis on IP litigation as a marketplace tool is only part of the reason why IP is taking center stage, he said.

Companies are doing more asset sales as they try to unload costly divisions or side businesses that are a drag on the bottom line. Laurie said surgically dividing companies creates a hotbed of potential battles.

"The problem is, IP covers everything, from what they're selling to what they're keeping," Laurie said. Before an asset sale is completed, sellers and buyers are already considering whether they can be sued for use of the IP assets they're left with, he said.

Company executives aren't willing to leave the issues up to corporate lawyers anymore, Laurie said.

"If you're a good M&A lawyer," he said, "then you can't read a patent."

Senior Writer Renee Deger's e-mail address is rdeger@therecorder.com.