

# Surviving Investor Patent Due Diligence

By Allen R. Baum

**N**ow that you have obtained a term sheet for your first serious round of financing, patent due diligence is imminent. What should you provide to investors so they can assess the relative intellectual property risks associated with the investment?

There are intellectual property risks associated with all investments in life sciences or high tech companies. While your potential investors know this, they also need to know what the “warts” look like so they can determine their level of comfort with the risks. Your job is to conduct due diligence to maximize the chances that potential investors will be comfortable with the inherent risks. The following tips will help you protect your investment.

It is imperative to investigate your company’s freedom to operate issues. It will be necessary to conduct a freedom to operate search well in advance of fundraising efforts to identify patents owned by others which may present a risk. The search should identify issued patents as well as published applications in countries of economic significance to your business.

It is important to thoroughly review your competitor’s patents. Share search results with your investors’ lawyers. If you are lucky, you will find nothing of concern. However, it is more often the case that you will identify relevant patents. Most potential investors expect it, and it is important to obtain an opinion concerning infringement or validity for the patents in question. An opinion gives your patent attorney the opportunity to discuss the actual level of risk with the investors’ counsel and will help protect the company from exposure to triple damages and attorney fees in a patent lawsuit.

Patents that appear to be relevant on the surface may include information or statements made by the patent owner during prosecution of the patent before the U.S. Patent & Trademark Office (USPTO) that

make it clear your company does not infringe. Similarly, you may discover that a patent should never have issued in view of prior art not considered by the USPTO when it granted the patent.

Investors’ counsel will often conduct independent searches to identify relevant patents owned by others as well. If you have not done your homework in advance, you may end up in the unenviable position of trying to address a patent you have never seen before.

Another way to build confidence among investors is to ensure that they have open access to everything they need to make an educated assessment of the risk, including direct access to your patent counsel. The best approach is to provide everything you would like to review if you were making the investment. There are some attorney-client privilege issues that you need to be aware of and that should be discussed with your lawyer. As a general rule, the smoothest deals are those where all patent due diligence materials are provided before the investors’ lawyers even know what to ask for.

There are many other things that you may want to consider in addition to a freedom to operate study. Review your patent estate and confirm that you have claims covering your commercial product. Ask yourself:

- How broad is the coverage?
- Will you be able to block the competition?
- Can you demonstrate a complete chain of title at the USPTO and ownership of the patents protecting your technology?
- Are the patents valid?
- If you have licensed the relevant patents, are there any limitations on the rights?
- Have you encumbered your rights through agreements with others?

These are all questions you will likely be asked. Knowing the answers ahead of time will make your investors more comfortable because they will know you are managing patent risk proactively. **BL**



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