

Preparing Your Intellectual Property Portfolio To Withstand Due Diligence

Proper management of your patent portfolio is essential to your company's success in attracting investment and forming partnerships with other companies. Accordingly, it is critical that you continuously evaluate your patent portfolio to ensure that it will withstand due diligence by prospective investors and partners. While the extent of the due diligence analysis may vary with the amount of money involved, the following discussion outlines some of the issues that may come under consideration and the best practices for successfully concluding the due diligence process.

A prospective investor or partner will typically begin its analysis with a review of the claims in your issued patents and pending patent applications in order to assess whether they offer sufficient protection to prevent competitors from entering your market and whether they actually cover the products that you are commercializing or intend to commercialize. While broad claims will prevent competitors from entering your market, they are more susceptible to invalidation by prior publications or activities that may come to light during litigation or during the examination of your patent applications at the United States Patent and Trademark Office. Claims of intermediate scope carry a lower risk of invalidation but also erect less of an entry barrier. Narrower claims protect your specific commercial products from exploitation by competitors, but may leave alternative approaches open to competitors. In order to reduce the risk involved in investing in your company, the party conducting the due diligence inquiry will want your patent portfolio to contain claims of varying scope.

The party conducting the due diligence will analyze your patent portfolio to determine whether it covers your technology from different angles. For example, a prospective investor or partner will assess whether your patents cover your commercial products, methods of making the products, methods of using the products, and a variety of technical features associated with the products. Again, protecting various aspects of your technology provides enhanced protection against invalidating prior art and erects a greater entry barrier to competitors.

During due diligence, the prospective investor or partner will also evaluate whether you have kept patent applications relating to your core technologies continuously pending. This strategy provides flexibility in the event that a competitor emerges who is not infringing the claims in your current portfolio but who is practicing an invention disclosed in your patent applications. If such a

competitor emerges, then you may be able to file a new patent application containing claims that cover the competitor's products and that are entitled to an early priority date. This approach may also enable you to overcome prior art that is discovered after your earlier-filed patent applications issue.

A prospective investor or partner may conduct a "freedom to operate" analysis, during which it reviews intellectual property held by others that relates to your technology in order to determine whether your company is free to make, use, and sell its products without risking an infringement allegation. It is worthwhile for you to conduct your own such analysis early in your company's lifetime, and to continue to search for pertinent patents, in order to ensure that your company is free to commercialize its products before building the company around the technology. That analysis will also help you to avoid surprises during the due diligence process.



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A prospective investor or partner will likely conduct a search for relevant publications that could invalidate the claims in your patent portfolio. Again, it is advisable for you to conduct your own validity analysis on your core technologies early in your company's lifetime to ensure that your company can obtain patent protection on its products and to avoid unwelcome surprises.

The party conducting the due diligence may evaluate your licensing arrangements or partnerships with other parties to determine whether any provisions in those licenses might interfere with your ability to commercialize your technology. In particular, provisions that leave significant rights in the hands of other parties or hamper your ability to sublicense your technology to other parties might diminish the value of your portfolio. Accordingly, at the time that you enter into licensing arrangements or partnerships, it is important that you consider the effects that these arrangements may have on your subsequent ability to obtain investors or to enter into other partnership or joint venture relationships.

In some instances, the due diligence review may include an evaluation of laboratory notebooks relating to your core technology. The prospective investor or partner may wish to assess your ability to substantiate the dates that you conceived your inventions and reduced them to practice, as well as your diligence in pursuing the inventions. These factors are important in the event that your patents or patent applications become involved in an interference proceeding to determine which of two or more parties claiming the same invention is entitled to the patent. Thus, it is important to establish good notebook-keeping practices, which will enhance your ability to establish these critical dates.

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