

Three Steps Early-Stage Companies Can Take to Prepare for IP Due Diligence

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Intellectual property due diligence is an essential tool for assessing the risks associated with investment, licensing, partnering, and acquisition. In the patent context, diligence aims to identify and de-risk potential issues with the ownership, validity, enforceability, of a company's patents, as well as evaluate potential infringement issues arising from third party IP. These are particularly important issues for early-stage companies, and there are three steps they can take to prepare themselves for the scrutiny of patent due diligence.

The lowest-hanging fruit for early-stage companies in preparing for diligence is to ensure that they are in possession of and can readily access the relevant documents. These documents generally include copies of patents and pending applications, inventor/company assignment documents to show proper chain of title to the IP, and agreements related to IP, such as employment and license agreements. While organizing patent documents sounds easy in theory, it often gets overlooked in practice, and gaps in the record or challenges in accessing or locating the documents can cause delays during diligence. Outsourcing the tracking and management of these documents to a patent attorney is a common solution for companies to be diligence-ready at any time.

Moving up the scale of complexity, early-stage companies must also pay close attention to inventorship and ownership issues. Both are a significant focus of every diligence regardless of the size of the company or the technology at issue, and getting either wrong can have serious downstream consequences. Inventorship should be determined as close to the patent application filing date as possible. Key questions to ask include (i) were any inventors non-employees, and (ii) did any employee inventor bring the invention with them from a previous employer? To

establish ownership of the invention, assignments should be promptly executed and recorded. Prolonging this process can make it harder to locate the inventors and/or gain their timely cooperation.

A more challenging aspect of patent due diligence for many companies is analyzing patentability and freedom to operate (“FTO”), which require a nuanced evaluation of the relevant facts and law. Potential investors and partners will universally inquire about patentability and FTO during diligence, and target companies should be well-prepared to address related questions. This approach minimizes the risk of surprises derailing a potential deal. If there is an issue with the patentability of an asset or the company’s freedom to operate, it is better for the company to know about it first, as buyers can more readily accept risk when they can see that the target company has thoughtfully considered the issue. However, companies should not share internal opinions on patentability or FTO with the other side or put any related statements writing

Following these steps to prepare for IP due diligence makes for a smooth diligence process. Demonstrating this sophistication during diligence garners goodwill from the other side and lends additional credibility to a target company’s approach to IP.