



Patent Portfolio Management: Strategies for Navigating Due Diligence for Startups

Wednesday, July 13th



Meet The Speakers



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Overview

- **Housekeeping**
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Exploring Common Pitfalls of Privilege

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DATE
Wednesday,
July 20, 2022



TIME
1:30 - 2:30 PM ET/
10:30 - 11:30 AM PT

Webinar | Exploring Common Pitfalls of Privilege

Companies rely on the protections of privilege to obtain sound legal advice to guide their businesses. It is becoming increasingly important to know how to navigate the ins and outs of privilege, including the attorney-client privilege, common interest privilege, and patent agent privilege, within the U.S. and foreign jurisdictions.

On Wednesday, July 20, please join principals [Kelly Del Dotto](#) and [Gwilym Attwell](#) as they guide you through common pitfalls of privilege that companies fall into and how to avoid them.

Agenda

- **Topics**
 - What is intellectual property
 - Timing and scope of patent filings
 - Basics of due diligence
 - How to be diligence ready
 - Building a team that creates IP value
 - Common diligence mistakes, and how to avoid to them



The Basics of Due Diligence

What is Due Diligence?

Due Diligence

due dil · i · gence

noun **LAW**

noun: due diligence

1 reasonable steps taken by a person in order to satisfy a legal requirement, especially in buying or selling something.

- a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.

A word cloud of terms related to due diligence, arranged in a circular pattern. The terms include: improvements, transferability, inventorship, consultants, loss of exclusivity, mergers, licenses, foreign filing, field of use, priority entitlement, IDS, export control, domain names, challenges, on sale bar, joint ventures, inventors, freedom to operate, geographic restrictions, government rights, US manufacturing requirements, open source, assignments, marking, offer for sale, and licenses.

What to Expect

- **No two diligences are the same, but there are common themes**
- Determining the business goals and risk tolerance
 - What info should Target share?
 - What info is potential Partner willing to see?
 - Be clear and direct about expectations
- Identify the team (in-house and outside counsel)
- Ownership review of Target's patents/applications
- Substantive review of Target's patents/applications
- Strategies with respect to third party patents?
- Go/No-Go decision
- Strategies following closing to address any weaknesses identified during diligence

- IP is important, but it's not the whole story



What is Intellectual Property?

What is Intellectual Property?

- **Intellectual Property (IP) includes things like:** inventions; literary and artistic works; and symbols, names, images, and designs used in commerce.
- **Patents** – protect inventions and provides a temporary monopoly in exchange for public disclosure.
- **Copyrights** – protect written or recorded expressive content.
- **Trademarks** – protect words, symbols, logos, designs, and slogans that identify & distinguish products or services. Provides protection for brands, and lets people know the source of goods.
- **Trade Secrets** – protect confidential information. Once public, no protection.

What is a Patent?

- A grant from the government of the right to *prevent others* from: making, using, offering to sell, selling, or importing the invention(s) claimed in the patent.
- Personal property – can be bought, sold, licensed, bequeathed, mortgaged, assigned.
- Limited Term – 20 years for utility and plant patents; 14 years for design patents.
- Territorial – must obtain patent in every country where protection is desired.
 - Choose your own coverage – which technology, which markets, and your cost sensitivity.

Why Get a Patent?

- **To build your business:**
 - To gain entry to a market.
 - Positive PR for a new/young company.
 - To increase attractiveness for investment/sale.
 - **IP is often of paramount importance in investment, partnering, acquisition, and other transactions and is foundational to long-term success**
- **To use against others:**
 - To exclude competitors from market.
 - To use as bargaining chips to exchange with other companies for use of their intellectual property.
 - To generate revenue by way of royalty payments.
- **To protect yourself in the future:**
 - Telling your invention story when you are sued for patent infringement.
 - Defensive filing – patent publications can serve as a defense by creating prior art for competitors.



Timing and Scope of Patent Filings

What is the proper timing for patent filings?

Patent Life Cycle Management is not just a patent function but rather it is a significant part of the larger business plan, including the ***partnering, exit, and/or commercialization plans***.

- Patent lifecycle can span 25 years or more.
- Is there a regulatory framework for the product?
- Product life cycles vary significantly between industry sectors and patent value can change accordingly, e.g., software versus therapeutics
- Approach should be tailored to the technology, market, and industry.

Considerations for patent filings

- **Understand how protecting particular innovations add value to the business**
- **What is the business plan for using the patent portfolio?**
- **Who/what are the competitive threats to this business plan?**
- **Prior art issues / getting scooped**
 - How competitive is the space?
 - Was there a public disclosure or prior sale? Is there an upcoming (unavoidable) public disclosure?
- **What has been done?**
 - What can you do over the next 12 months?
- **Other pressures**
 - Investors, founders, push to raise company profile via publication
- **No magic date**
 - Applications don't publish for 18 months

Scope of patent filings

- How much to disclose?
 - Must enable one skilled in the art to make and use the invention.
 - Must prove you did what you said you did.
 - Be credible, tell YOUR story.
 - Don't prior art yourself.
 - YOUR application must be enabling to issue as a patent.
 - Prior art disclosures, including your own earlier work, are ASSUMED to be enabled for purposes of rejecting a pending application.
- Protecting specific assets versus protecting platform technology.
 - How to detect infringement of a platform?
 - Internal versus external use
 - Scope of filings tend to be more significant to cover platform applications

Scope of patent filings - Searching

- Performing a freedom-to-operate (“FTO”) and/or patentability search before filing is not required
 - This will come up in diligence
 - More crowded space favors searching early
 - You still don’t know what you don’t know
 - May impact the scope and/or timing of filing
- BUT: Don’t assume you are entitled to market and sell your product just because you own a patent or maintain a trade secret related to the product
 - Evaluate FTO early and continue to monitor over time
 - Budget both time and money to identify competitor patents that may impact your ability to sell your product

Budgeting

- **Initial Budgeting**

- There is no perfect way to balance expenses for patent filings vs. research and development.
- While filing the initial patent application(s) might be an easy call, the decision-making is far more difficult as the company matures.

- **Longer-term Expenses**

- Patent expenses at the national phase, e.g., filing multiple foreign applications often align when a start-up company is 2-3 years into its development.
- The General Counsel is often asked whether the company should put money into patents or into R&D—both of which may be critical “milestones.”
- Who wins?



How to be Diligence Ready

Type of transaction influences scope of diligence

- **Venture Capital Investment**
 - Often lighter diligence
 - Focused on ownership of IP and soundness of IP policies
- **License or acquisition of assets**
 - In-depth diligence assessing ownership, breadth of coverage, patentability, freedom to operate, international protection, term of protection relative to product life cycle and much more
- **Acquisition or merger**
 - Depth depends on maturity of target company/key products
 - Often initiated late in the deal process
 - Value of IP already priced in
 - Pressure to close

Sell side or buy side

- **Start up is target of diligence**
 - Competitor or not?
 - Do you have IP that could cover a product?
 - Highly knowledgeable in the your technology, competitors and relevance of IP or not?
- **Start up is performing the diligence**
 - Academic institution or commercial entity?
 - Academic institutions: Do not expect any analysis of patentability or freedom to operate
 - Academic institutions: The inventors may ascribe unrealistic value to early stage IP
 - Commercial entity: Is there any competition for the IP that you are interested in
 - Value in collaboration or IP?
 - Controlling use of resources
 - Decide what matters

Diligence light or a deep dive?

- **Overall soundness of the IP portfolio**
 - Policies & processes
 - Confirm ownership of IP
 - Solid patent applications
- **Ability to protect and commercialize specific products**
 - Patentability of claims covering the product
 - Breadth of protection around the product
 - Freedom to operate for sale of the product
 - Period of IP protection for the product
 - Alignment between IP protection and global market opportunities
 - IP planning for product life cycle
 - Cost of licenses
 - Freedom to operate for manufacture of the product
 - Transferability of licenses

What can you do to be ready for diligence

- **Put in place sound IP policies**
 - Invention disclosure system
 - Protection of trade secrets
 - Employment agreement that require assignment of rights
- **Timely assessment of inventorship**
- **Make certain you have clear chain of title for patents/applications**
- **Be able to articulate an IP strategy**
- **File patent applications that reflect your innovations and priorities**

The easy (maybe) part: Having the relevant documents

- **Be ready to populate the data room**
 - Copies of patents
 - Copies of patent applications with filing papers
 - Assignments with recordation records
 - Employment agreements
 - License agreements
- **Should be easy, but is often time-consuming**
 - Stay on top of IP-related documents
 - May need to outsource to your IP counsel
 - Delays/gaps in data room can be a big distraction
- **Do not over populate the data room**
 - Exclude unpublished patent applications in the initial stages

The reasonably easy part: Inventorship and Ownership

- **Attend to these in real time**
- **Both are a significant focus of every diligence**
 - It is important - getting it wrong can have downstream impact
 - You will be asked about disputes
 - Keep the inventors engaged in the drafting of application and prosecution
- **Inventorship**
 - Should be analyzed close to the time of filing and based on the claims
 - Should be analyzed by a lawyer
 - Consider involvement of non-employees (CROs, academic collaborators, etc.)
 - Consider timing of invention relative to formation of company and employment of each inventor
 - Can be corrected if error is innocent, but time is your enemy
- **Ownership**
 - Assignments should be executed and record promptly
 - If you wait, you may not be able to locate inventors or gain their cooperation
 - Does the corporate structure allow the ownership to be in the correct entity

The harder (definitely) part: FTO and patentability

- **The buyer will do their own assessment**
- **When should you do your own assessment?**
 - When there is a product or potential product that is a value driver
- **Why should you assess FTO?**
 - There are no good surprises
 - The buyer can more readily accept risk when they see that the seller is prepared
- **Do NOT share your opinion on FTO or patentability issues**
 - Nothing in writing
 - All discussion between attorneys

Confidentiality and Risk of Contamination

- **Confidentiality agreement is a must have**
- **Limit and identify individuals that have access to confidential information**
- **A cautionary tale: *Gilead v. Merck* -- 888 F3d 1231 (Fed Cir 2018)**
 - \$200 million patent infringement damages wiped out because confidential information gained during diligence had been used craft the claims in the patent asserted by Merck

Sell Side

- Be reasonable and confident
- You do not have to say yes to everything
- Be aware of information that you cannot provide
 - Protective order
 - Confidentiality agreement
 - Lack of access to the right people
- Accompany no with a reason for the no
- Distinguish **no** and **no, not now**
- Do not be dismissive of genuine issues

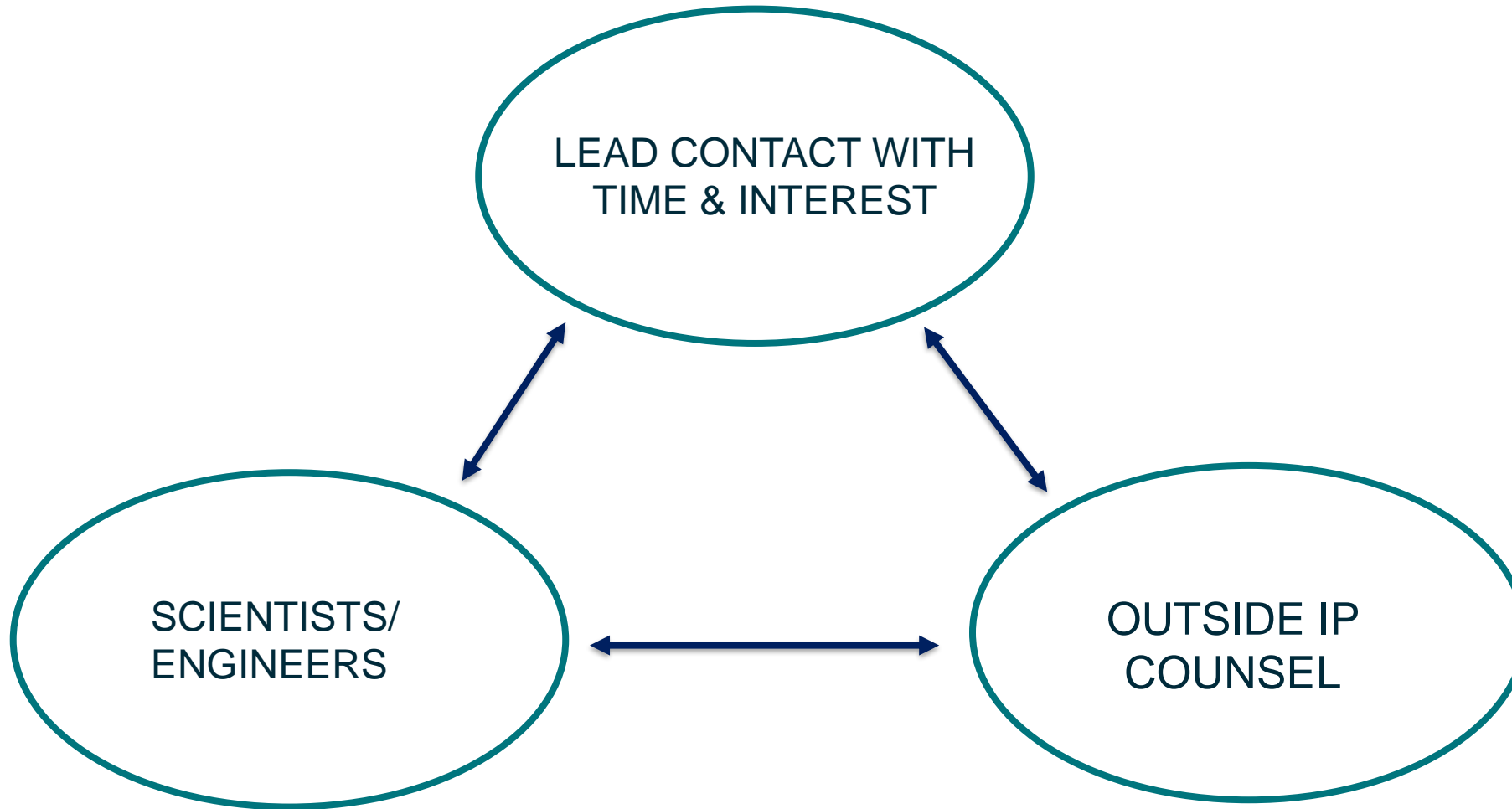


Building a Team that Creates IP Value

What makes a very good patent

- **Filed at the right time**
 - The invention is ripe for patenting
 - The prior art is manageable
- **Contains the right information**
 - In many fields data really matters
- **Provides value by covering a product**
 - Focus is products, not on industry domination
- **Tells an interesting story**
 - When a patent is valuable, it will likely be enforced
 - When a patent is enforced, the judge/jury needs to understand that you faced challenges to do something wonderful – tell the story

Building a IP team in a start up



Thank You!



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