Caveat Venditor: Advance Planning for Startup Technology Companies

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For many technology startups focused on developing innovative and exciting new products, building a solid and valuable patent portfolio takes a back seat as a distinctly secondary consideration. Such a lackadaisical approach to patent protection can dramatically affect the worth of a desirable, new product to a potential investor, buyer, or licensee. In contrast, you can maximize the value of your startup to an investor, buyer, or licensee by thoughtfully designing and implementing a strategy to maximize the scope and strength of your patent portfolio, in the context of its overall business environment and competitive landscape. We, therefore, advise startups to begin preparing their patent portfolios for sale as early as possible, if not upon inception, with the assistance of patent counsel, in order to allow enough time to create a valuable patent portfolio and address any weaknesses before reaching out to prospective investors, buyers, or licensees.

PORTFOLIO SCOPE

Begin with an evaluation of the scope of the patent portfolio, considering both issued and pending claims. Issued claims possess the most value, as they alone hold the power to exclude others from practicing the claimed invention. Nevertheless, having pending claims in each patent family allows a buyer or licensee the flexibility to pursue different claim strategies as a project takes on a more definitive shape, particularly where the specification provides a deep disclosure with support for a variety of narrow, intermediate, and broad claim limitations. While the actual scope of pending claims is generally less important due to the uncertainty inherent in examination by the patent office, the provisional rights that attach after publication of an application may be of interest in some cases.

As a first step in evaluating the portfolio, confirm that the claims encompass your core technology, particularly any commercial embodiments. Consult with technical and business development personnel in your organization regarding proposed or even potential improvements, if any, and confirm that the portfolio includes claims that would cover such improvements. Additionally, investigate whether the portfolio includes any claims that serve to fence in competitors' options for further development, so that the claims cover not only your preferred embodiment, but known and potential preferred embodiments of competitors. If not, add such claims where possible.

Second, are there claims of appropriate breadths? Broad claims carve out a large swathe of protection and can hold value in blocking or procuring licenses from competitors, but are also more vulnerable to invalidity attacks. Narrow claims, easier to defend, withstand more attacks, but only prevent direct copying and offer little protection against design-arounds. Patents having claims in a range of breadths, including a variety of intermediate-scope claims, attract the most interest from investors, buyers, and licensees. In the pharmaceutical arena, for example, a narrow claim to a commercial drug may be adequate to block a generic competitor, prior to the expiration of the exclusivity period, but may not offer any defense against another innovator company seeking to develop a better, related drug. And, while a very broad claim might fall to an invalidity attack, an intermediate claim to a subgenus of drugs with the inventive functional group that imparts activity on a somewhat generic structure, could survive a challenge while still covering a variety of design-arounds.

Third, does the portfolio include all relevant statutory classes, i.e., processes (including methods of making and methods of using), machines, (articles of) manufacture, and compositions of matter? Although particular statutory classes will be more or less important for each technology, consider having at least a few claims in each relevant category. For pharmaceutical and biopharmaceutical technologies, startups should strive to have claims that can be listed in the FDA Orange Book. Listable claims include those directed to active ingredients, formulations, and methods of treatment.

If any gaps are uncovered by your review, obtain additional coverage with the assistance of patent counsel. For disclosed but unclaimed subject matter, such as claims of intermediate scope, add new claims to a pending application or in a new application claiming priority to a pending application. If the patent family has no pending applications, confer with counsel to determine whether you can pursue the identified claims in a reissue application, and whether the benefits of such claims merit the cost and risk of reissue. Prepare provisional applications directed to previously undisclosed subject matter, such as proposed improvements. Then, as the technology progresses, supplement the provisional application with further developments in the year before the filing of corresponding nonprovisional applications.

PORTFOLIO STRENGTH

But, as a savvy target, do not rest on patent scope alone. Prospective investors, buyers, and licensees will also closely examine your portfolio to ensure that you could enforce it against potential infringers, and that your claims, when enforced, will withstand the inevitable invalidity defenses. Begin by confirming that the patents have not lapsed, i.e., that you have paid all maintenance fees, due three-and-a-half, seven-and-a-half, and eleven-and-a-half years after patent issuance. If you claimed small entity status, confirm that it was appropriate when claimed, and remains appropriate, or make any necessary corrections. If necessary, pay any additional fees due to the patent office.

Patents lose their blocking power if a court holds them unenforceable for failure to disclose material information to the patent office. Consequently, prospective investors, buyers, or licensees will want to investigate whether all relevant information in the possession of inventors and others substantively involved in prosecution was disclosed to the patent office during prosecution. Such information includes prior art, as well as inconsistent information, such as statements in internal files or to other patent offices or regulatory bodies. If you have pending applications, cite any previously undisclosed material art to the patent office. For issued patents, supplemental examination, enacted as part of the Leahy-Smith America Invents Act ("AIA"), will provide a mechanism to put certain previously undisclosed material art before the patent office and avoid unenforceability, as elaborated below.

Next, review issued and pending claims in light of the specification and file history of each application or patent to be sure that the claims satisfy the criteria of patentability under 35 U.S.C. §§ 101 and 112, including utility, enablement, and written description. The claims should also satisfy the best mode requirement, although with the passage of the AIA, failure to comply with the best mode requirement will no longer serve as a defense to patent infringement. While conducting this review, consider double-patenting issues. Take advantage of the opportunity to correct statutory double-patenting by amending or cancelling any duplicative claims, and address nonstatutory obviousness-type double patenting by filing a terminal disclaimer.

Then, confirm that your claims are novel and nonobvious, as required by 35 U.S.C. §§ 102 and 103. This will require a review of pertinent prior art, as defined based on the priority dates (take the time to verify that priority was correctly claimed) and on the applicable law of anticipation and obviousness. The AIA, implementing an absolute novelty standard, has made a number of changes affecting the definition of prior art that will take effect on March 16, 2013. Conduct a prior art search or, better yet, hire a specialized search firm to locate relevant art for your review. Then, address art and other issues affecting the validity and enforceability of patent applications and issued patents, as discussed further below.

CORRECTIONS

After identifying any potential weaknesses in your pending applications or issued patents, and preferably before marketing your portfolio to potential investors, buyers, or licensees, take the necessary steps to address them. Ideally, make corrections during prosecution of a patent, when you can easily amend the claims of pending applications to correct errors and circumvent prior art. You should also correct errors in the specification if you can do so without introducing new matter. If that is not possible, identify the errors to the patent examiner. Identify all relevant art and submit it to the patent office for consideration.

Even after issuance, the patent system offers a number of options for addressing problems with issued patents. Those options have increased with the passage of the AIA. Address clerical, typographical, and other minor errors, particularly those in issued claims, by requesting a certificate of correction from the patent office. However, that mechanism cannot make any corrections that would constitute new matter or require reexamination.

Reissue provides a mechanism to correct errors in the specification, drawings, and claims, as well as inventorship that would render a patent “wholly or partly inoperative or invalid.” Although claims may be broadened or narrowed during reissue, the patent office only permits broadening in the first two years after issuance of the patent, limited by the recapture doctrine, which prohibits the patentee from obtaining a claim to subject matter that was disclaimed during prosecution. Ex parte reexamination provides a mechanism for the patent office to examine an issued patent in light of submitted art that the patent owner states poses a substantial new question of patentability. If the patent office agrees that the art poses a substantial new question of patentability, it will reexamine the patent, and the patent owner will have the opportunity to make amendments to the claims required for patentability. Because reissue and reexamination can take years at the patent office, begin early, or confer with counsel regarding the advisability of such proceedings given a particular commercial timetable.

Reissue and reexamination cannot correct inequitable conduct. In contrast, supplemental examination, which will take effect September 16, 2012 as part of the AIA, will provide an avenue to avoid inequitable conduct in many situations by presenting previously withheld art or other information to the patent office for consideration. The patent office will determine whether the art or other information raises a substantial new question of patentability, triggering reexamination. If the art or other information does not raise a substantial new question of patentability, the patent office will conclude the supplemental examination. The proceeding protects the patent owner from a charge of inequitable conduct, as long as the patent owner waits to bring suit until the supplemental examination has been concluded, and unless the art or information was first formally raised by a challenger. Although the patent owner should, if possible, conclude supplemental examination before marketing a portfolio, if a negotiating partner raises previously unconsidered art or information, the parties can incorporate suitable financial incentives into the financial structure of a license or sale, such as by building in milestone payments if certain art is not found to raise a substantial new question of patentability, or at the conclusion of a subsequent reexamination proceeding.

OWNERSHIP AND THIRD PARTIES

You will also want to ensure that you have clear title to the portfolio you seek to market. Under United States patent law, ownership follows from inventorship, and each inventor owns an interest in the entire patent, which he or she can sell or license independently of the other owners. Consequently, the existence of a previously unidentified inventor without an obligation to assign to your organization can seriously undermine the value of your portfolio. You should therefore work with your patent counsel to confirm that you correctly determined inventorship, or to take appropriate steps to correct inventorship.

Next, confirm that you have assignments from all inventors, including any newly added inventors. Although recordation is not a legal requirement, it is advisable to record all assignments with the patent office so as to provide public notice of the portfolio’s ownership. If there have been any changes in ownership, for example, if a portfolio was purchased from another company, or if there was a merger or other change in corporate structure, ensure that the parties have recorded relevant documents reflecting ownership. The public record should reflect a clear chain of title to your organization.

You should also investigate whether other parties, such as contractors or collaborators, could claim ownership, whether through inventorship or some contractual provision. If necessary, seek to obtain assignments or licenses from such parties. Finally, if there are any pending adverse third party proceedings regarding your portfolio, try to resolve them before marketing the portfolio, as the uncertainty and expense of such proceedings may depress its market value.

INVESTIGATE THE COMPETITIVE LANDSCAPE

The other piece of information you will need to strengthen your portfolio is an understanding of the competitive landscape. The existence of blocking patents can dramatically impact the value of your product and portfolio. Conduct, or outsource, a freedom-to-operate search based upon your product and/or broadest claims to identify any blocking patents and, if any are found, investigate whether those patents are valid, enforceable, and infringed, with the assistance of patent counsel.

Obtaining an assignable license to such blocking patents could make your portfolio more desirable to a prospective buyer or licensee.

PREPARE TO MANAGE INFORMATION

During the due diligence process leading up to a sale or license, prospective investors, buyers, or licensees will ask for information regarding your patent portfolio so that they can evaluate their potential investment. While it is desirable to share some information to facilitate the transaction, be aware of the risks involved in sharing information that may be sensitive or attorney-client privileged. Establish a plan to maintain attorney-client privilege, and to preserve confidentiality of other sensitive documents, throughout the due diligence process. At the outset, enter into a confidentiality or nondisclosure agreement specifying who will have access to particular information and how the parties will handle information in the event of a breakdown in negotiations or of future litigation involving the portfolio. Also, confer with patent counsel regarding whether it would be appropriate to enter into a common interest agreement, which may mitigate, but not entirely eliminate, the risk of a waiver of privilege. You may want to establish a tiered disclosure schedule, with disclosure of particularly sensitive information linked to milestones in the negotiation. Finally, prepare for commercial aspects of the negotiation, knowing that you have positioned your startup's portfolio as best as you can to maximize revenue for your company.