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Due Diligence Tips for Seed Investment in Technology Companies

by **Emmet Scully, Lester Sosa-Villatoro**

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An early-stage technology company meets venture capital investors, and a term sheet is presented for signing, congratulations to all involved – securing seed investment can be tough!

Commercial terms are always subject to due diligence. Venture capital investors want evidence that backs up the sales pitch and that the company is in compliance with applicable requirements.

The three Key Legal Considerations

1. **Intellectual Property**

The IP must be fully owned by the company. The focus will be on the IP provisions set out in the employment contracts and the agreements with all parties otherwise engaged to develop IP for the company.

2. **Share Capitalisation**

Evidence of ownership over the shares and over securities convertible into shares will be required: Statutory registers, registers of loan notes or warrants, employee incentive schemes, shareholders' agreements, side letters and/or arrangements currently in place between the existing stakeholders on the running of the company are key.

3. **Litigation**

Investors will be keen to learn about disputes involving the company, in particular disputes concerning a founder or key employee.

Preparation is important. Being Due Diligence ready will minimise delays.

For more information contact Emmet Scully and Lester Sosa- Villatoro

About the Authors

Emmet Scully
Partner

Emmet is an experienced corporate lawyer with expertise advising on a variety of M&A and private equity transactions, as well as corporate and private equity structuring.
T: +353 1 637 1538 **E:** escully@lkshields.ie

Lester Sosa-Villatoro
Partner

Lester advises clients on a wide range of corporate and commercial transactions.
T: +353 1 638 5880 **E:** lsosavillatoro@lkshields.ie