QUESTIONS AND ANSWERS ON

IP Transactions

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WHAT YOU NEED TO KNOW ABOUT IP TRANSACTIONS

What is an Intellectual Property (IP) Transaction?

IP transactions are agreements involving an exchange of rights in intellectual property (patents, trademarks, trade secrets, or copyrights) for obligations (usually money). These agreements may also involve: (i) discovery and development of intellectual property; (ii) ownership and disposition of intellectual property rights; (iii) control over the use of or access to intellectual property; and (iv) investment in intellectual property.

How is intellectual property included in an IP Transaction?

Patents, copyrights, and trademarks are bundles of rights that may be divided, assigned, or retained by the parties, through different kinds of intellectual property agreements. Other types of proprietary IP rights, such as trade secrets, know how, business methods and strategies, can be allocated between parties. Rights of use can be divided and shared or transferred based on contract term factors such as fields of use, territory, or periods of time. Intellectual property can also be provided in the form of services, such as consulting, training, and research & development services.

How do I know what type of IP Transaction is best?

IP transactions need to be shaped by your business objectives, the competitive and regulatory nature of the market, and the characteristics of the particular intellectual property at issue. The type of transaction best for you will depend on a variety of factors, such as the size and availability of resources of the parties, the nature and stage of development of the intellectual property, and whether the technology is targeted for a new or existing market.

A review of comparables in the industry, the requirements and limits of applicable law, and the objectives and capabilities of the parties involved will likely narrow your options. As technology changes, new forms of IP transaction agreements emerge.

Why and when do I need to get an intellectual property attorney involved in my IP Transaction?

When IP is core to a business deal, you should involve an intellectual property attorney early in the planning process to avoid inadvertent loss of intellectual property rights and missed opportunities to obtain favorable deal terms. IP transactions require an understanding of the scope and strength of intellectual property rights and an understanding of the alternative ways to implement an exchange of intellectual property rights that will satisfy the business objectives of the parties.

Are there different types of intellectual property agreements in different fields of technology?

The same types of intellectual property protection—patent, copyright, trademark, and trade secret protection—are applicable across technology fields, and the same basic forms of agreements can be tailored for different technologies. However, differences in technology, regulatory requirements, government approvals, and constrains on the actors involved (such as the prevalence of academics as originators) lead to variances in the agreements. Industry norms and the culture of the parties also play a role in shaping the structure and terms of the agreement.

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STEPS AND STRATEGIES TO CONSIDER WHEN PURSUING AN IP TRANSACTION

What are some basic strategies for protecting my intellectual property rights before and during an IP transaction?

Some basic steps include: (1) protecting the confidentiality of information during initial and follow-on discussions, using, for example, a Non-Disclosure Agreement (NDA); (2) taking steps to secure your rights in the IP, such as obtaining assignments from your employees and consultants, and filing patent and trademark applications before sharing information; and (3) documenting and keeping records of information and ideas to protect against future disputes as to ownership.

Why do I need a Non-Disclosure Agreement (NDA)?

Parties often need to share certain confidential information with each other to evaluate potential business opportunities. An NDA allows the parties to exchange that information, yet protect its confidentiality and limit its future disclosure. An NDA obligates a party to keep information confidential and controls and identifies the people to whom the information can be shared.

Is an NDA a standard form agreement? Do I need to read it?

No and yes. Even if the other party indicates the NDA is their standard form agreement, you should read it. Your intellectual property attorney will tailor the NDA to your specific business needs so it does not restrict you more than is necessary.

What should an NDA include?

Start with your goals. Determine the purpose of disclosing the information, the subject matter of what is likely to be disclosed, the manner of disclosure, the length of time for which the information should be treated as confidential, and the people and/or entities that may share the information (such as existing and future affiliates of the recipient). Pay attention to exceptions to the obligation of confidentiality. Don't agree to more than you can satisfy and don't agree to less than you need.

What is an assignment?

An assignment is a transfer of ownership of intellectual property. The party owning the IP is called the assignor and the party receiving the IP is called the assignee. Initially, the person creating the IP, for example your engineer, owns it. So, it is important that you put in place a procedure where your employees assign their ownership rights in the IP to your company.

What does an assignment cover?

An assignor can transfer only that which it owns. It is crucial to include a clear description of the intellectual property that is being assigned. The assignment should contain specific language with regard to the identity of the IP and the receipt of something of value in return.

Should an assignment agreement be recorded with any government agency?

Yes. To protect the rights of the buyer, your intellectual property attorney should record the assignment with the agency granting the rights. In the United States, recording patent and trademark assignments with the U.S. Patent and Trademark Office is recommended.

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What is the difference between an assignment and a license?

An assignment transfers all or part ownership interest in the intellectual property from the assignor to the assignee. A license, on the other hand, allows the party with the intellectual property (licensor) to retain exclusive ownership, yet allows the other party (licensee) to use or commercialize the intellectual property.

BASIC REQUIREMENTS FOR AN IP TRANSACTION AGREEMENT

How do I conduct pre-deal diligence?

You should identify the joint objectives of the parties and limitations on their ability to perform, including obligations imposed by third parties. You should also involve your intellectual property attorney early to uncover ownership issues, strength of IP protection, and whether you can practice the technology even after obtaining a license.

Do I need to identify all the parties?

Although this sounds simple, often companies and their U.S. or foreign subsidiaries are involved. Be sure the proper entity having the rights and authority to enter into the agreement is a party to the agreement.

Do intellectual property agreements need to be in writing to be enforceable?

Generally, yes. In some cases, a written agreement is required by statute – an assignment of a patent, for example, must be in writing. While some agreements may be enforceable without a written agreement if sufficient supporting evidence is provided, providing such evidence is often difficult in intellectual property arrangements.

Is a simple term sheet or document of understanding between the parties sufficient to protect my interests?

While a term sheet is a good starting point for negotiating the core terms of a deal, your intellectual property attorney will want to formalize and write the agreement as soon as possible to remove any ambiguity between the parties as to deliverables, ownership, and use of intellectual property.

The detail of the agreement can vary by industry and by country. In some countries, for example, the cultural norm is to rely on general and often open-ended language, whereas in the United States, agreements tend to be more structured and specific.

Aim to have a signed document which identifies the parties and makes the agreement over core terms clear and binding. Where the deal requires ambiguities, the document should include provisions for dealing with them.

TO LICENSE OR NOT TO LICENSE—WHAT ARE THE QUESTIONS?

What is a license agreement?

A license is a grant of permission from a party owning the intellectual property (licensor) to allow another party (licensee) to use or commercialize certain intellectual property rights for a specified purpose in exchange for something of value, such as royalty payments (money), other IP through cross-licenses or development licenses, or some other valuable asset. The license will often be more detailed by outlining the various obligations of the parties.

What are the benefits to my granting a license?

There are a number of potential benefits to granting a license, including:

Increased revenue with minimal further investment. You may have spent more money and time than expected in developing the intellectual property. A licensee may be able to complete the product development, bring the product to market, and pay royalties back to you.

Commercializing under-exploited intellectual property. You may have developed intellectual property that is not central to your business, or the intellectual property you have developed may have uses in fields outside of your own that you are not exploiting. You could license the intellectual property to industry leaders in those ancillary fields.

Penetrating domestic or foreign markets. Another party may have far more expertise in how to introduce your intellectual property to a new market, or may have a market presence you lack. Licensing to these parties allows quick and low risk entry into other markets.

Obtaining technology via a grantback or cross-license. Gaps in the licensor's technology may require technology from another party, and the other party may face the same need for a license. Having the two parties exchange technology can be a win-win situation.

Increased goodwill. Licensing trademarks can increase consumer awareness of them, strengthening the licensor's brand.

Meeting requirements in the sale of a subsidiary. When a subsidiary is sold, or a unit of a company is spun off, the company may need to license the technology to the buyer/new entity.

Evaluating a future partner. A license enables you to "test" how well the licensee exploits the technology before entering into a more formal arrangement, such as a joint venture or merger.

What are the risks to my granting a license?

When deciding whether, and to whom, to grant a license, consider:

Fostering future competition. The licensee may learn your know-how and become a direct competitor, especially when it is introducing a new product to your current market.

Reducing return on investment. As the licensee bears the risks and costs of bringing the product to market, it will want the lion's share of the profits. You will receive less of a financial return than if you had manufactured the product yourself.

Increased liability and damage to reputation. If the licensee performs poorly, you may risk incurring product liability and damage to your reputation.

Greater administrative burden. You may need to provide the licensee with technical expertise and know-how to make the product a success, as well as take time away from other projects.

I’ve decided to grant a license. To whom do I license?

One of the most tried and true methods is to consider industry leaders**.** These are companies that have the market power, customer base, manufacturing capability and financial resources to maximize profits for your IP.

Another source to evaluate are suppliers of OEMs. They have the relationships you lack that are often necessary to promote the IP. You may also find success in brainstorming commercial applications. Gather your engineers, scientist, and marketers to consider potential commercial applications, then target the industry leader as a licensee.

Lastly, consider packaging it. Develop a beta test product, perform a small scale production, and offer a turn-key product/process to your licensee.

What are the benefits in my *taking* a license?

Your reasons for taking a license might include:

Updating an existing produce line or expanding into a new one. Obtaining a license may allow you to augment your own technology, increase market coverage, update and expand an existing product, or introduce a more profitable new product, more quickly and cheaply than developing new technology internally.

Reducing your need for expensive R&D. You can save time and money by obtaining a license to the technology rather than developing it yourself.

Accessing to technical expertise. As part of the deal, you may have access to the licensor’s training and support to fill in the gaps in your own knowledge.

Appearing bigger than you are. With a licensing portfolio, you can appear as though your company developed the latest technology even though you may not have the R&D and engineering arm to have actually done so.

Increased leverage in the marketplace. Being able to use another’s trademark can enhance the sales of your product, and licensing popular technology can enhance your credibility with consumers.

Obtaining a right to which others are excluded. If you can negotiate an exclusive license with the licensor, none of your competitors will be able to sell the same product.

Settling an intellectual property dispute. A patent owned by another may block you from introducing your product. Obtaining a license to that patent will allow you to bring your product to market.

What are my risks when *taking* a license?

Examples include:

Up-front costs may be lost. If the product proves to be a failure in the marketplace, you can lose your up-front license fees. You may even need to continue paying the licensor royalties despite a lack of profits on the endeavor.

Unlicensed competition could gain an advantage. If the technology you license is easy to design around, your competitors may begin using similar technology that achieves the same goal in a different way. If they don't have to pay royalties for the competing technology, you may find yourself undercut in price.

The technology may be too costly. Your margins could be undercut if you are required to pay large up-front licensee fees or too costly royalty payments.

Damage to reputation of your core business. Licensing a technology that turns out to have a bad reputation with your customers can cost you goodwill towards your other products.

Disclosure of confidential business information. There is a risk that unrelated technical information, business plans, or trade secrets could be disclosed to the licensor.

How do I know I am getting what I need and what I can use?

With help from your intellectual property attorney, pre-deal diligence will help expose whether the technology is right for you and whether the strength of protection offered by the licensor's patents, trademarks, trade secrets and copyrights is adequate for your business goals. Your intellectual property attorney may uncover weaknesses in the protection and could offer ways to design around it.

Your licensor may not own all of the rights to the technology provided, leaving you with the risk you are infringing third party rights by using the technology. Your intellectual property attorney will help uncover this potential problem.

Other related Q&A booklets available

Questions and Answers on IP Audits
Questions and Answers on IP Litigation
Questions and Answers on Patents
Questions and Answers on Patents for Academics
Questions and Answers on Software Patents
Questions and Answers on Trademarks

Glossary

Assignment: a transfer of ownership of intellectual property.

Beta testing agreement: an agreement between a product developer and an early stage product user. The user identifies problems with the product and confirms that the product works as intended.

"Click-wrap" or "browse-wrap" agreement: an Internet-based agreement that provides the user with terms and conditions for use of a product or service (typically Internet or software based) and where the user agrees (generally by clicking an "I agree" button) prior to use.

Co-branding, co-marketing or co-promote agreement: an agreement to promote and/or market products to consumers. Variants include marketing one product under a joint or combined label, marketing one product under separate labels, and leveraging joint marketing resources to market different product lines.

Collaboration agreement: an agreement to develop a product or provide a service together, much like a joint venture, but without the creation of a distinct entity or project.

Consulting agreement: used to set forth the consultant's role, compensation, and obligations regarding developing and assigning intellectual property.

Covenant not to compete: restricts the ability of one party to compete in the same market with another party or, in the employment context, restricts the ability of an employee from working for a competitor.

Covenant not to sue: a contractual arrangement between two parties where one party agrees not to sue the other for intellectual property infringement (also referred to as **non-assert agreements**).

Development agreement: outlines the responsibilities associated with developing a technology or product and establishes provisions for the ownership or use of the newly developed technology or product.

Distribution agreement: used when one company buys the products of another and distributes those products for sale to end-users.

Employment agreement: an agreement between employee and employer outlining the scope of employment and assignment of intellectual property rights.

Escrow agreement: an agreement in which one party places intellectual property in the hands of a neutral where, at the occurrence or a predefined trigger event, the intellectual property is turned over to another party.

Joint development agreement: used when parties collaborate to co-develop a product or technology and typically sets forth the role of each party and provisions for ownership or use of the product or technology.

Joint venture: a project in which parties provide the capital, labor and/or technology to bring the project to fruition.

License: an agreement where one party grants certain rights, but not ownership, in intellectual property to another party.

Non-disclosure agreement (or confidentiality agreement): outlines the obligations to maintain proprietary information in confidence.

Option agreement: provides opportunities to obtain certain rights if particular events occur. For example, a company might have the right of first refusal to purchase technology developed by a university lab or another company.

Research agreement: used when a party agrees to fund the research in a new technology in exchange for a stake in the technology.

Reseller agreement: occurs when one party agrees to buy the product of another party, and then resell them to third parties, such as to companies further down the supply chain or directly to consumers.

Shrink-wrap agreement: typically used with packaged software, where the terms for using the software are only accessible after the software has been purchased and unwrapped.