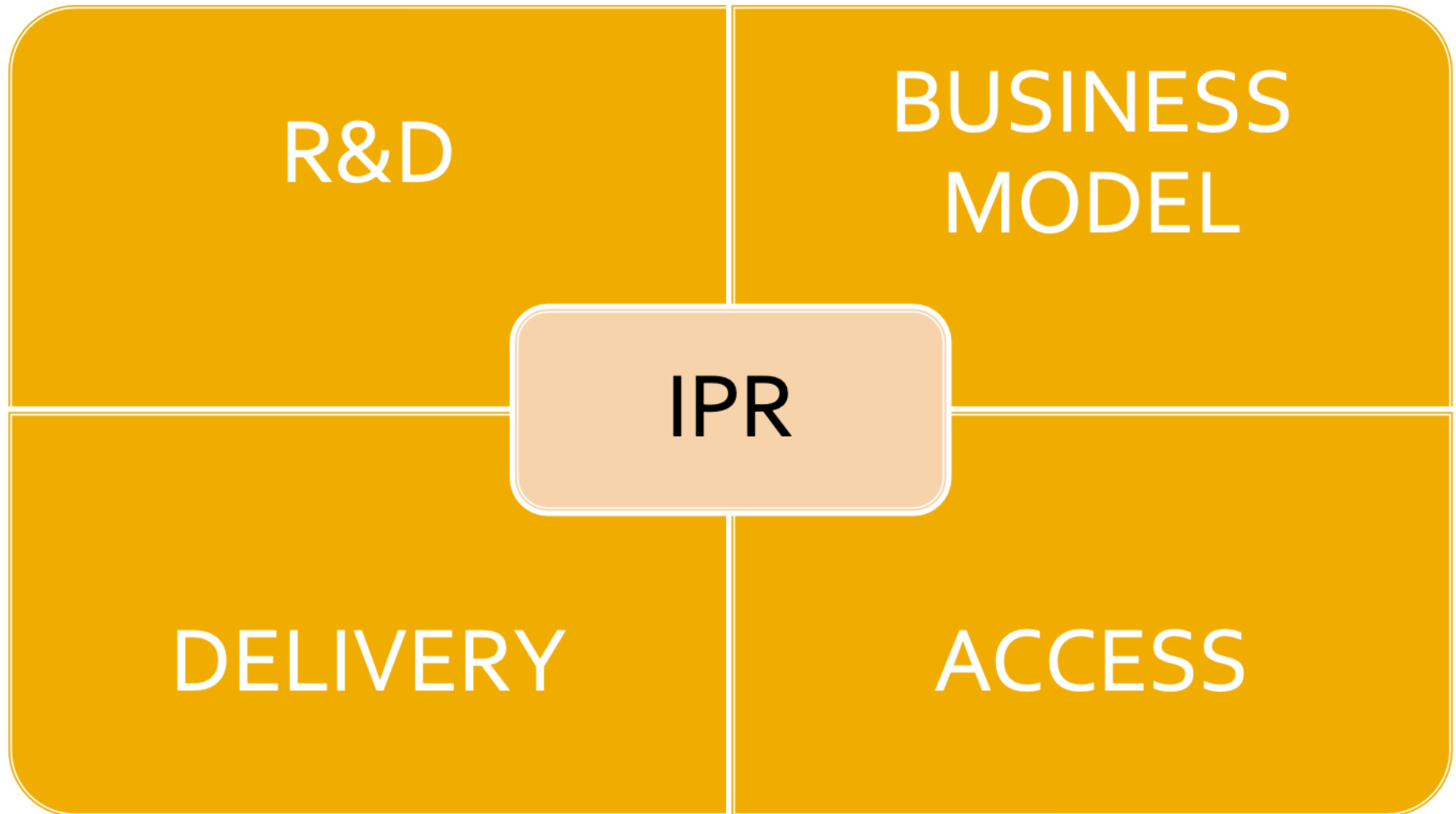


TRANSACTIONAL ISSUES IN IP

PROF. VIVEKANANDAN

INNOVATION-DELIVERY MATRIX



INNOVATION- IP-DELIVERY

- LINK BETWEEN INSPIRATION – INNOVATION
- LINK BETWEEN INNOVATION – DISCLOSURE
- LINK BETWEEN DISCLOSURE – COMMERCIAL SUCCESS
- LINK BETWEEN LOCAL –GLOBAL ARENA

5 KEY ISSUES IN STRATEGIC MANAGEMENT OF IP-TECH DELIVERY

- **1. LAW AS A TOOL OF MANAGEMENT VS LITIGATION**
- PROTECTING INNOVATION
- AVOIDING INFRINGEMENT
- EXPANDING THE JURISDICTION
- CHALLENGING THE VALIDITY

5 KEY ISSUES IN STRATEGIC MANAGEMENT OF IP-TECH DELIVERY

- **2. IP IS A CULTURE –NOT AN IRON CURTAIN**
- THERE IS A STATUE IN EVERY STONE
- TO AVOID REINVENTING THE WHEEL
- THERE IS A NON OBVIOUS VIEW IN EVERY OBVIOUS SITUATION
- GOOD FENCES MAKE GOOD NEIBHOURS

5 KEY ISSUES IN STRATEGIC MANAGEMENT OF IP-TECH DELIVERY

- **3. IP IS NOT A FIXED FRAMEWORK**
- STRATEGIES ARE CONTEXTUAL
- ONE SIZE DOES NOT FIT ALL
- NOT A FAMILY SILVER
- TO KNOW WHEN TO DROP THE CARD

5 KEY ISSUES IN STRATEGIC MANAGEMENT OF IP-TECH DELIVERY

- **4. IP IS ABOUT RIGHTS**
- IT IS NOT JUST ABOUT MONEY
- TO DONATE YOU NEED RIGHTS
- CAN BE A TOOL OF RELATIONSHIP
- CAN BENEFIT SMALL PLAYERS

5 KEY ISSUES IN STRATEGIC MANAGEMENT OF IP-TECH DELIVERY

- **5. IP IS PROPRIETARY –YET**
- ALL SEGMENTS TO BE WORKED IN TANDEM
- COOPERATION AND COLLOBORATION IS THE KEY
- PAPER TO CURRENCY- SPEED IS THE ELEMENT
- LAW IS A SERIOUS BUSINESS TO BE LEFT ALONE TO LAWYERS

It is Post IP- the challenge

- Knowledge- Innovation-Technology delivery-
Appropriate IP policy as the link
- Through strategic management of IP
- R.K. Narayan's story is important !

IP licensing/franchising

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In this session

- Concerns in JV
- Transfer of Technology
- Checklist for Agreements

Concerns in JV – Indian perspective

- IP is territorial
- Private vs Public entities
- Valuing intangibles in ownership
- Understanding of ip management by Indian partners is crucial
- IP litigations in nascent stage in India
- Ip litigations are expensive in Europe
- Arbitration is a preferred route

Concerns in JV – Indian perspective

- The Statutory rights
- Patents
- Trademarks
- Designs
- GI
- Layout designs of ic
- Protection of plant varieties & FR

Concerns in JV – Indian perspective

- Common Law Rights
- copyright
- Confidential information

Concerns in JV – Indian perspective

- Strong –
 - patents
 - designs
- Moderate-
 - Trade marks
 - Integrated circuits
 - Plant varieties
- Weak
 - Confidential information

Concerns in JV – Indian perspective

- Types of Rights-
 - ❖ Automatic rights
 - copyright
 - ❖ Granted rights
 - Patents
 - Design
 - Trademarks (for infringement)
 - IC
 - Plant varieties
 - GI
 - ❖ USE or Defence Rights
 - Confidential Rights
 - International Marks

When in (Rome) replace(India).....

- Need to have a complete discussion on ip management of the collaborator
- Similarities in goals need to be tempered with differences in laws (globalization vs National)
- A checklist of export-import regulation to be vetted from ip perspective

A few hints:

- Good fences make good neighbors:
 - Background IP
 - Non-collaborative IP
- Filing First is the rule
 - **Talk with your Technology Transfer Office**
- Don't forget about export concerns

Types of Licenses

Out-license	University to Company (IP transfer)
Cross-license	Company to Company (usually JV or strategic partnership)
Sub-license	Company to Company (usually product development, marketing)

Remember:

Scope of license limited by preceding licenses in IP transfer lineage

"Future Performance"

Out-license (University → Company)	Duty to develop, commercialize, make payments
Cross-license (Company ↔ Company)	Distributed duties to develop, commercialize, share expenses/profits
Sub-license (Company → Big Company)	Possible joint duty to develop, transfer additional IP rights

DRAFTING ISSUES: who does / gets what;
measuring / meeting expectations;
break up

Important Terms in Licensing

Intellectual Property	<u>Identified Patents/Applications</u> (incl. divisionals, continuations), know how, (possibly copyrights & trademarks)
Field	Specified patent claims, certain uses, etc.
Territory	By country
Term	Until end of life of last-to-expire patent (could be term of years in case of collaboration)
Licensed Product	Tangible result of making, using the licensed intellectual property

Important Rights Transfer in Licenses

Exclusivity	Ability to control exploitation of licensed IP (within Field and/or Territory restrictions)
Sub-license	Ability to engage development partners or expand ability to exploit full scope of licensed rights
Assignment	Transfer of license to successor, acquirer
Patent Prosecution	Control prosecution of licensed applications, development of divisionals / continuations
Cure of Breach	Avoiding “snap” terminations and loss of licensed rights (<i>think milestones</i>)

Financial Issues

License Fees -- How are they calculated?

Product sales

. . . . but consider Licensee's distribution options & goals: e.g., bundling or giveaway to enable sales of non-licensed products (consider how best to quantify licensee's commercial use of IP rights)

How does payment structure affect Licensee's motivation to sell/use?

PAYMENT ISSUES: Up-front payments
minimum payments
Royalties (stacking; profits v. sales; by
units; gross v. net revenue)

Consequences of Non-Performance

loss of funding	usu. from external source, but could be partner's internal resources dry up
loss of interest	too: long; hard; uncertain; insignificant loss of champion(s)
“it seemed like a good idea at the time”	the ever-evolving business model

Other issues of non-performance

Jointly-developed IP (who owns what?)	Assignment of exclusive rights; concurrent non-exclusive rights
Ability to freely re- license (its not over when its over)	Rights of first refusal; repayment obligations
Trigger Points (knowing when they folded ‘em)	Failure to act by date certain; “drop- dead” notice provisions

What is Licensing?

Licensing is a marriage with IP as children and the license agreement is a pre-nuptial agreement.

Table of Contents

1. Term Sheet.
2. Is it an Assignment or a License?
3. "Exclusive" license.
4. Grant - Patent License.
5. Definition of Licensed Patent.
6. Alternative Dispute Resolution.
7. Best Efforts.
8. Know-How.
9. Improvements.
10. Marking.
11. Termination.

1. Term Sheet

- Sometimes called “Letter of Intent” or “Memorandum of Understanding”.
- Not enforced where it contains
 - (1) non-binding provisions,
 - (2) requirements for future negotiations or
 - (3) vague or ambiguous terms and/or lacks specifics as to any essential terms of the agreement –
- too tentative and incomplete to create a final settlement.

2. Is it an Assignment or a License?

- The only transfers amounting to a patent assignment involve the transfer of:
 - 1) the entire patent (right to make, use, offer for sale and sell); or
 - 2) an undivided, fractional portion of the rights (*e.g.*, 20% interest); or
 - 3) all patent rights to any specified portion of the country (*e.g.*, make, use, offer for sale and sell only in A.P.).
- Anything less is a license (*e.g.*, transfer of patent rights for less than the full term is a license).
- Why does it matter?

2. Is it an Assignment or a License?

- It matters for two reasons:
 - 1) Tax treatment – payments for patent assignment are capital gains vs. ordinary income for license payments.
 - 2) Standing to sue for infringement – if the transferee does not have standing to sue for infringement, it is a license and not an assignment.

3. “Exclusive” License

A grant of an “exclusive” License doesn’t necessarily mean that there aren’t prior existing non-exclusive agreements, just that the Licensor will not grant any further licenses.

4. Grant – Patent License

- “Make, use, offer for sale and sell” – right to “import” or “lease” go beyond the statutory right of the patent owner.
- “Make” and “sell” implies right to “use”.

5. Definition of Licensed Patent

- Simplest way is to define the Licensed Patent(s) by patent number(s).
- But, does that include possible related patents, patent applications (either pending or to be filed) that encompass improvements on the invention and rights under Corresponding foreign patents?

5. Definition of Licensed Patent

Could include:

- All existing issued patents directed to the subject matter of the agreement;
- All applications (divisional, continuations, continuations-in-part) pending or to be filed (and respective issued patents) directed to the subject matter of the agreement (broad – Licensee) or which rely on the priority date of any of the issued patents or pending applications (narrower – Licensor);
- All reissues, re-examinations and extensions of the issued patents; and

6. ADR Clause

- “Any dispute arising under this agreement shall be settled by arbitration in accordance with the Rules of the (SPECIFY COUNTRY)

6. Provisions for Arbitration Clause

- What disputes are subject to arbitration.
- Binding or non-binding.
- Number of arbitrators.
- Arbitrator qualifications.
- Location of arbitration proceeding.
- Provisional relief.
- Timelines.
- Scope of discovery (document production, interrogatories, depositions).
- Form of award (findings of fact/conclusions of law?).

6. Provisions for Arbitration Clause

In international arbitrations:

- Language.
- Nationality of arbitrators.
- Common or civil law.

7. Best Efforts

- Courts may imply a covenant of good faith and fair dealing (“Reasonable efforts to exploit”, “duty to exploit with due diligence”).
- None implied in non-exclusive license – economic success not dependent on any one Licensee.

8. Know-How

Preferable to use term “know-how” or “show-how” rather than “trade secret” which has a statutory meaning(in US) and Licensor has to show reasonable steps to maintain a trade secret.

8. Know-How

- No obligation to pay royalties after patent expires but can receive royalties indefinitely with know-how.
- In hybrid agreements, allocate royalties between patents and know-how and distinguish them pre-patent expiration v. post-patent expiration.
- Any post-patent expiration royalties should be clearly tied to the know-how.

9. Improvements

- Rights to improvements can be grant-backs to the Licensor by the Licensee or rights by the Licensee in Licensor's improvements.

10. Patent Marking

Marking products with patent number gives constructive notice to infringer so damages recoverable from beginning of infringement v. upon receipt of actual notice of infringement.

10. Patent Marking

Marking products with patent number may establish patent infringement by estoppel.

11. Termination

- Remember to include a termination provision.
- Be mindful of *ipso facto* bankruptcy termination provision in patent and copyright licenses.
- May provide the Licensee a certain period of time after receiving written notice of breach the ability to cure.
- However, don't allow Licensee to continually miss royalty payment date and then pay at the end of the cure period.

11. Termination

What provisions survive termination?

- Accrued royalties,
- Retention of sales records,
- Right to audit,
- Confidentiality,
- Indemnification,
- Insurance,
- Disposition of existing inventory (careful in trademark licenses),
- Status of sub-licensees,
- Licensee to continue to use the licensed know-how.

A Last Word

- Thank you for your time

- Sources: Mr. Stephen M. Sammut, Visiting faculty of Wharton Business school
- Needle & Rosenbergo, Atlanta
- Deacons