



INTELLECTUAL PROPERTY

IP ESSENTIALS HANDBOOK

IP TRANSACTION CONSIDERATIONS

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Making intellectual property work for you

There are a multitude of possible transactions involving IP. In general terms, they involve either acquiring, disposing of or commercialising IP rights (e.g., the derivation of revenue from the development and/or exploitation of such rights).

IP rights might be acquired either by outright acquisition or licensing for various reasons, including to:

- provide freedom to operate by removing or addressing IP infringement risks;
- introduce a new product or service to the market and gain enforceable protection covering that product or service to protect the IP rights holder's market share;
- enhance or improve a particular activity, system or process of the acquirer; and

- supplement and expand the acquirer's IP portfolio to improve the perceived or actual value of the acquirer's business and/or to gain enforceable rights for use in defending future claims and discouraging potential claimants bringing such claims.

IP rights might be disposed of by sale or licensing for various reasons including to:

- provide an income stream;
- allow for further research and development;
- contribute to a joint venture or other collaboration; or
- secure financing.

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Each type of IP right has its own idiosyncrasies and requirements. However, in broad terms, each type has the advantage that it can be divided up in any number of ways without exhausting the right.

If the value of an IP right is to be maximized, it is important that both the IP right itself and any dealings in it are managed appropriately, both in terms of the factors which may affect its validity or enforceability and the use to which it can be put. It is also important to consider competition and consumer laws issues.

Whichever side of the transaction you are on, when planning for or engaging in any dealings involving IP rights, it is important to make sure that:

- the relevant person owns the rights (do employment and contractor agreements contain the necessary clauses?)

- the IP right is free from any security interests;
- the party's dealings involving the right will not infringe the rights of any third parties; and
- where relevant, the risk of any third party challenging the validity of the right is appropriately minimised.

To some extent, these issues can be addressed through appropriate enquiries and searching, and adopting appropriate IP policies and procedures, but it is common to include warranties, indemnities and protection mechanisms in relevant transaction agreements relating to the acquisition, disposal or exploitation of the relevant right.

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To get the most value from IP rights, it is important that a party aligns its business strategy with its intended exploitation of those rights. This will assist in determining the likely type of dealing, the relevant objective(s) relating to the dealing, and the key terms that will be required in the relevant transaction documents.

For example, a patentee might be prepared to license the right to exploit an invention as claimed in a particular patent to a licensee but limit the rights granted to the licensee to use solely in a particular field and retain the right to exploit itself or license the same rights in other fields and/or to other licensees.

The creation of products, services and ideas in which IP rights reside is generally the result of a large investment of time, money and resources. That investment can easily be lost if appropriate strategies are not put in place to capitalise on the economic usefulness of the IP rights being acquired, developed or commercialised.

Key issues to consider when negotiating IP rights

In any dealing involving IP rights, it may be necessary to consider the following issues:

1. What is the scope of the grant of rights and are there to be any territorial, technical or other field restrictions?
2. How is the subject matter of the right to be transferred? By licence, disclosure of information, training or by some other activity?
3. In licensing situations, will the licensee have the right to sub-license? If so, what control, if any, does the licensor want in relation to any sub-licensing activities?
4. Is confidentiality an issue and, if so, which party or parties should be subject to obligations of confidence?

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5. How are "improvements" to be dealt with? How will they be defined and who will own what rights?
 6. Is the acquiring party required to meet any minimum performance obligations? If so, how will compliance with those requirements be assessed? What will the consequences be for non-compliance?
 7. What are the financial terms? Will they be lump sum payments or ongoing royalties? Will there be any milestone payments or minimum royalties? How will the payments be calculated and when will payment be due? Will the licensee retain any set-off rights for sub-standard performance or non-payment of amounts owing to the licensee?
 8. Should the licensor have the right to inspect and audit a licensee's accounts and records?
 9. What will be the term (duration) of the arrangement? Will a party have the right to end it early? If so, on what grounds? Will they be reciprocal?
 10. What warranties are to be given and by whom? Will there be any indemnities? Will liability be limited?
 11. Are there any insurance obligations? If so, who will benefit from those obligations and what will their scope be?
 12. Who will have the rights and obligations to maintain and enforce the IP rights?
 13. What are the tax implications of the proposed transaction?
- Many other issues arise where a transaction involves foreign IP rights, such as the appropriate structure for the transaction, whether consents are necessary and whether certain transaction documents need to be recorded with any governmental or other office.