

Intellectual Property (IP) & Partnership Agreement Strategies

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Letter of Intent (LOI)

- Letter format
- Expression of interest in a transaction and to enter into further negotiations
- Sets out the parties' (preliminary) understandings of the substance of a further definitive agreement
- Fully binding or not binding at all
- Hybrid?

Memorandum of Understanding (MOU)

- Agreement negotiated between two or more parties
- Outlines the responsibilities to be assumed by each of the parties to achieve certain goals or results.
- Terms may be binding or non-binding
 - Parties' intentions are important as is language used in the MOU

LOI/MOU: Purposes

- Identifying business, procedural and regulatory issues that are relevant, but which the parties may not yet have considered in detail
- Providing a means of notifying third parties of the intention of the parties to enter into a transaction
- Setting out what terms will be binding
- Identifying transactional risks, staging and time
- Allocating responsibility for costs of the transaction

LOI/MOU: Purposes Cont'd

- Allowing parties to make public disclosure of state of discussions
- Allowing due diligence to commence
- Taking off the market the target company/asset/transaction pending negotiation of final terms
- Reducing potential for agreed to terms to later be reopened for negotiation
- Creating “moral cohesion” for a transaction to reach definitive agreement

LOI/MOU: Non-Binding Provisions

- Parties acknowledge they are not legally bound by these provisions, but intend to proceed to negotiate and execute a definitive agreement that may contain some or all of these provisions
- Permissive language:
 - “may”
 - “would”
 - “possible”
 - “proposed”

LOI/MOU: Non-Binding Provisions Cont'd

- Nature of transaction/transaction structure
 - Identity of parties?
 - Asset purchase, share purchase, license, lease, JV?
 - Acquisition vehicle(s), spinco/spin-off, reorgs?
- Price and payment terms
 - Cash, shares or combo?
 - Exchange rates, when determined, etc?
 - Lump sum or installments?
 - Post-closing adjustments?

LOI/MOU: Non-Binding Provisions Cont'd

- Included/excluded assets and liabilities
- Representations and warranties
- Indemnities and survival periods
- Joint and several liability and guarantors
- Collateral benefits
- Approvals/notifications

LOI/MOU: Non-Binding Provisions Cont'd

- Regulatory compliance issues
- Employees
- Non-competition and non-solicitation covenants
- Definitive agreement(s)
- Timing to sign and closing conditions

LOI/MOU: Binding Provisions

- Parties acknowledge they are legally bound by these provisions notwithstanding intent to negotiate definitive agreement which may expand on these or replace them
- Mandatory language
 - “shall”
 - “agree”
 - “must”

LOI/MOU: Binding Provisions Cont'd

- Confidentiality and non-disclosure
- Access for inspection and phased disclosure
- Expenses, deposits and break fees
- Consulting agreements
- Lock-up, no-shop, etc.
- Non-solicitation of employees/customers

LOI/MOU: Binding Provisions Cont'd

- Conduct of business until closing
- Termination and survival
- Governing law
- Assignment
- Negotiate in good faith?

Partnerships

- When does a partnership exist?

Partnership is the relation that subsists between persons carrying on a business in common with a view to profit, but the relation between the members of a company or association that is incorporated by or under the authority of any special or general Act in force in Ontario or elsewhere, or registered as a corporation under any such Act, is not a partnership within the meaning of this.

Partnerships Act, RSO 1990 c P.5 s 2

Partnerships

Formula:



Partnerships: Jurisprudence

- *A.E. LePage v Kamex Developments Ltd* (1997), 16 OR (2d) 193 (CA), aff'd [1979] 2 SCR 155.
- *Volzke Construction Ltd v Westlock Food Ltd*, [1986] AJ No 424, 45 Alta LR (2d) 97 (CA).
- *Pooley v Driver* (1876), 5 Ch D 458 (Eng MR).
- *Spire Freezers Ltd v Canada*, [2001] 1 SCR 391, 196 DLR (4th) 210.

Partnerships Act, RSO 1990 c P.5 s 2

Ontario's *Partnerships Act* (ONPA)

- *ONPA* provides the default rules governing the relationship between the partners
- Default rules:
 - Equality
 - Fundamental Changes
 - Transfers and Termination
 - Capital and Records

Partnership Agreements

- No requirement for partners to enter into a written agreement
- Used by partners to avoid application of various *ONPA* provisions

Partnership Agreements: Key Provisions

- Personal liability
- Admission of partners
- Capital contributions
- Distributions
- Management and Administration
- Accounting and Banking

Partnership Agreements: Key Provisions Cont'd

- Withdrawal
- Insolvency, death and disability
- Termination and dissolution
- Outside activities and non-competition

Partnerships & IP

- Who owns IP?
 - IP brought into the partnership?
 - IP developed during the partnership?
- What are the risks and issues of IP joint ownership?

Partnerships & IP

- Must be careful with respect to joint ownership of intellectual property!
- Absent careful and detailed terms within an agreement, joint owners of intellectual property can do any of the following **without having to account to the other owners:**
 - Use the intellectual property
 - Acquire revenue from use of the intellectual property
 - Assign the entirety of their title in the intellectual property

Partnerships & IP

- Much like partnerships, co-ownership of intellectual property can arise **automatically!**
- With respect to ***inventions***, any individual who contributes to the conception and reduction to practice of a **single claim** within a patent, **regardless of intention**, is considered an **inventor** and can acquire an **undivided interest in the whole of the patent**

Partnerships & IP

- What this means is that regardless of how relatively substantial an individual's contribution to the invention might be, and regardless of intention, anyone who contributes to the conception and reduction to practice of the invention may be considered an inventor and a co-owner (with an undivided interest in the whole of the invention)

Alternative IP Partnership Models

- Joint ventures
- Licensing and co-development agreements
- Contract R&D

Alternative IP Partnership Models - Options

Joint Venture

- There is no real legal entity known as a 'joint venture'; a joint venture is an agreement between two or more parties to pursue a common commercial objective
- Often times, a 'Joint Venture Agreement (JVA)' will incorporate aspects of other agreements
 - Co-development
 - Licensing of intellectual property

Alternative IP Partnership Models - Options

- Co-Development and Licensing
 - It is very important that a co-development agreement address ownership of intellectual property (to avoid the issues associated with partnerships and co-inventorship)

Alternative IP Partnership Models - Options

- Co-Development and Licensing
 - Co-development is a very complex issue
 - Who 'owns' the intellectual property?
 - How is revenue shared?
 - How is further development funded/financed?
 - Who owns future development?
 - Which party is responsible for marketing, R&D, etc.?
 - Who is responsible for enforcing IP rights?
 - How does one exit the relationship, and what happens to the IP?

Alternative IP Partnership Models - Options

- Co-Development and Licensing
 - One option is to create a 'NewCo' corporation responsible for commercialization of intellectual property
 - The Agreement between the parties would set out that NewCo will be created for the purposes of commercializing IP
 - All parties agree that all IP is assigned to NewCo
 - The parties each have an ownership stake in NewCo, with a comprehensive shareholder agreement in place to determine how NewCo is governed, funded and to protect each parties' interest in NewCo

Alternative IP Partnership Models - Options

- The nature of intellectual property – being intangible as opposed to tangible, real assets – makes ‘joint ventures’ very **challenging**
- The nature of intellectual property – being intangible as opposed to tangible, real assets – sometimes makes ‘joint ventures’ very **necessary**
- The complexity of the issue means that there is no ‘cookie-cutter’ solution- must be dealt with on a case-by-case basis

Thanks!

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