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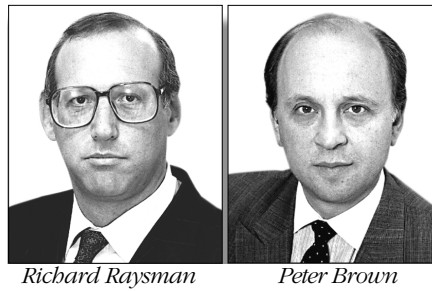
Technology-Based Joint Ventures

TECHNOLOGY-BASED joint ventures are subject to rapidly changing technical standards, fluctuating markets and an emphasis on intangible services. But with careful legal planning, the joint venture can be an extremely effective vehicle for bringing together technology companies wishing to tap each other's intellectual property assets, often allowing these parties to reach new markets or expand existing relationships.

In a joint venture, each of the joint venture parties (or, co-venturers) contributes something of value to a newly formed entity, one designed to oversee the new business endeavor. Such an arrangement allows multiple parties access to pooled capital, technical, management and intellectual property (IP) resources. Pooling these resources and assets provides co-venturers a means for expanding their business capabilities and attaining rights not available to either party acting alone. Because of the intangible nature of IP assets, it is especially important that the methods for identifying, transferring and retaining IP rights be clearly spelled out in any agreement between co-venturers and the joint venture.

Structure/Formation

Being largely a creature of contract, the joint venture's legal structure and governance documents will generally be determined by the goals the co-venturers wish to achieve, the time frame for achieving those goals, and the individual contributions co-venturers bring to the endeavor. For example, one co-venturer may be better suited to handle the day-to-day operations of the joint venture and, thus, may be granted more managerial powers and



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responsibilities, even if representation at the board level is divided equally. In addition, careful attention should be paid to the jurisdiction's particular tax and antitrust laws when deciding on the eventual legal structure of a joint venture.

Due Diligence

The strength of a newly formed technology joint venture will generally turn on the individual IP assets each co-venturer brings to the endeavor. In addition to the general business, financial and legal investigations that are prudently conducted when separate entities come together, it behooves all co-venturers to conduct thorough due-diligence IP investigations in order to evaluate a fellow co-venturer's copyright, trademark, trade secret and patent assets. Whether a co-venturer owns IP rights or has secured them by license, the rights are valuable to the joint venture only if the co-venturer can demonstrate that all requirements of ownership and licensing have been maintained and its right to assign or license is in place. An IP audit, or other suitable due diligence investigation, can verify the status of the IP rights a co-venturer is contributing to the joint venture and confirm that the joint venture will be able to exploit and enforce those rights. By clarifying the strength and breadth of a party's IP assets, an IP audit or investigation conducted early in the joint venture's formation can help assess a party's suitability for the joint venture's proposed business objectives.

Transfer of IP Assets

A co-venturer who contributes IP assets and rights to a joint venture is in the unusual position of being both a transferor and a transferee. As transferor, a party is interested in transferring to the joint venture enough of its IP assets as will allow the joint venture to succeed, but not so much that it loses ultimate control of its IP portfolio or exposes the portfolio to unreasonable risk. On the other hand, as a principal to the joint venture, a transferee is interested in seeing that the joint venture captures as much underlying IP as possible, increasing the venture's chances for success. Thus, the dual roles played by a co-venturer who contributes underlying IP to the joint venture requires that all joint venture agreements and transfer documents be drafted with as much detail, and as little ambiguity, as possible.

The contribution of IP assets to the joint venture may be in the form of an assignment or a license. However, there are several reasons why an assignment may prove too rigid a form of transfer. First, an assignment may place severe limitations upon an assignor's ability to exploit IP rights in markets or industries other than those reached by the joint venture. Second, the joint venture is likely to be organized solely for the limited purpose of fulfilling the co-venturers' specific business objectives; once it achieves those objectives it may have no further use for the assigned IP rights. Third, co-venturers may be understandably hesitant to assign their valuable IP rights to a joint venture that, although heartily sought, is wholly untested. Finally, given the co-venturer's dual role as IP transferor and transferee, an outright assignment of co-venturers' IP rights to the joint-venture transferee could impair the independent status of the joint venture and produce conflicts of interest among co-venturers. For these and other reasons, a license may prove a more flexible form for transferring co-venturer IP rights to the joint venture.

The value of underlying IP contributed by license will depend on the specificity of the co-venturer licensor's grant to the joint

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venture. Several important items to consider when drafting such a license are as follows:

- *Scope:* The scope of the license determines what rights are being granted and whether the rights include an entire copyright, for example, or only a certain use or application. The broader the scope, the more valuable the license will be to the joint venture licensee. The parties should be clear on how the underlying IP will be used by the joint venture licensee and what rights will be retained by the co-venturer licensor. In addition, a competent due-diligence investigation would also include a determination of whether the co-venturer licensor has the authority to grant the specific background IP to the joint venture licensee in the first place.

- *Term:* The term of the license will determine how long it is valid and might include the initial term and any renewal terms. It is common for joint ventures to have particular goals that can be reached within specific time periods. Specific time periods and business objectives should be detailed, along with specific targets and contingencies. Here, particular attention should be paid to inherent limitations upon the underlying IP rights being transferred in the license. For example, a licensor may not be able to charge royalties for use of a patent beyond expiration of the patent term. On the other hand, a license to use a trademark could continue indefinitely, provided the mark's registration requirements are maintained.

License Territory

- *Territory:* The territory of the license will determine in which jurisdictions the grant of underlying IP rights will be valid. This term should be consistent with the territory of the joint venture itself. If the joint venture's territory is worldwide, it may be difficult to apply the licensed IP rights accordingly, given the territorial nature of different types of IP. For example, trademark and copyright protections are growing more global given the United States' participation in various international treaties and protocols. Yet, patent protection is largely national in scope. Thus, if a co-venturer licensor wishes to transfer a U.S. patent right to a joint venture licensee, the value of such a license is diminished for a joint venture that wishes to assert the licensed right in territories beyond the United States. Given the inherently different territorial reaches of specific types of underlying IP and the possible differences in jurisdiction between co-venturers and the joint venture, careful attention should be paid to the territorial scope of any co-venturer's license of IP rights to a joint venture licensee.

- *Exclusivity:* The co-venturer licensor can grant its IP rights exclusively to the joint venture, solely to the joint venture while

retaining certain rights for itself or non-exclusively to any third party. For the joint venture licensee who is investing heavily in the venture's success, the co-venturer licensor's grant of exclusive IP and technology rights solidifies a competitive advantage to the joint venture against all unlicensed third parties. Moreover, exclusivity ensures that the co-venturer licensor cannot use the licensed IP rights to compete against the joint venture. Conversely, for the co-venturer licensor, there is a risk that, by granting an exclusive license to the joint venture, the co-venturer is

Because of possible risks and rewards and the uncertainty of a joint venture, exclusivity terms receive most attention during negotiations.

precluded from exploiting its IP rights in other markets. In any case, the more specific exclusivity terms can be made, the better it is for all parties.

Because of their risk/reward value, and because of the overall uncertainty of a joint venture, exclusivity terms are likely to receive the most attention during negotiations. Also, it is not uncommon to find exclusivity conditional upon certain sales or other performance minimums or targets. Although IP rights may be granted exclusive as to geographic, sales or manufacturing territories, or similar field-of-use restrictions, special attention should be paid to jurisdictional antitrust and other restraint-of-trade considerations when drafting exclusivity provisions.

Defining Competitive Issues

- *Non-Competition:* Closely related to a license's exclusivity clause is an agreement that expressly defines competitive issues for the parties brought together in a technology joint venture. The concern here is that the joint venture not be undercut by potential competition between co-venturers, between co-venturers and the joint venture, between co-venturers and third parties, or between the joint venture and third parties. However, restrictions on competition can be awkward; on one hand the co-venturers are under a fiduciary obligation to act with loyalty toward the joint venture and, on the other hand, technology co-venturers are often actual or potential competitors. Moreover, non-competition provisions may be difficult to enforce and even illegal in certain jurisdictions. Therefore, the unusual alignment of parties to a technology joint venture may require that

license agreements and non-competition provisions be drafted with as much detail and forethought as possible. At a minimum, the licenses should clarify exactly which competitive arena is the province of the joint venture and which will remain the province of co-venturers. Non-competition clauses solidify commitments from all parties that those provinces are to remain distinct for the life of the joint venture.

- *Termination:* Because most joint ventures have limited life spans, the joint venture agreement should address how the venture will be terminated and the implications for any assets developed during its life. Typically, the co-venturers might wind up the venture on mutual agreement. If there is no mutual agreement, various other exit-strategy mechanisms can be triggered (e.g., failure of the technology, failure to remain competitive or failure to achieve the venture's objectives or business plan). In the event of termination, one of the most complicated issues is what happens to the venture's assets. Unlike "brick and mortar" businesses, the assets of many technology joint ventures may be IP and, therefore, intangible or difficult to evaluate. It may be appropriate to develop cross-licensing provisions, giving each party equivalent IP rights upon termination. Another possibility is to allow the parties the opportunity to purchase exclusive or non-exclusive IP rights from the venture. These and other options avoid the difficulty of having to divide the joint venture's IP assets based upon an assessment of each co-venturer's individual underlying IP contributions to the venture.

Conclusion

The above is not an exhaustive list of factors that need to be considered when crafting a technology joint venture. Other factors to consider are: the royalty streams and obligations of the co-venturers' underlying technology or IP assets; the disposition of joint venture software source code should the co-venturer contributing such code exit the venture; the indemnifications and limitations on liability the joint venture and co-venturers will seek from each other for third-party infringement actions; and the representations and warranties of title, ownership, merchantability and fitness for purpose that the joint venture will demand with the co-venturers' IP contributions.

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