

Buying and Selling Intellectual Property



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Introduction

Have you ever bought or sold intellectual property (IP)? Do you know what it entails? What are the risks to look out for? How it can be used strategically to give you a competitive edge? This factsheet outlines the processes involved in buying and selling IP and highlights some issues which the buyer and the seller ought to consider.

The basics

Like any property, IP can be bought and sold. In such a transaction, the seller gets paid for the IP he has created or developed and the buyer as the new owner is free to commercialise (or “exploit”) the IP that he has bought in whatever way he chooses. The legal term for such a transfer of ownership is ‘assignment’. Once the IP has been assigned, unless special arrangements are entered into, the seller will lose his ownership of the IP, and consequently the right to use it.

Assignable IP can be registered IP, pending IP applications or unregistered IP. Registered IP and pending IP applications include patents, trade marks, designs, plant varieties protection. Unregistered ones include copyright, goodwill, and rights in know-how and confidential information (also extending to trade secrets).

In an assignment, the seller is known as the assignor and the buyer, an assignee. The assignment of trade marks, patents, copyright and designs have to be in writing in order to be effective. This document is known as the assignment agreement. Where the assignment involves patents or applications for patents, the assignment has to be signed by or on behalf of the parties to the transaction. For trade marks (registered or pending applications), designs (registered or pending

applications) and copyright, the assignment may be signed by or on behalf of the assignor¹. However, for maximum certainty, most assignments are also signed by the assignee in practice.

The assignment agreement should also set out the commercial understandings of the parties relating to the assignment – hence, apart from a clear definition of what is to be assigned, other matters such as the price and other commercial terms should be spelt out.

IP assignments can be stand-alone, i.e., relating just to the transfer of the IP in question, or may be part of a larger transaction, for example an acquisition of the assets of a company. Situations when IP assignments are entered into include:

- Sale of IP assets – for example, a company may wish to divest its IP assets, or realize financial returns on its prior investments, or a company’s IP may be disposed of in the course of liquidation.
- Acquisition of IP rights – for example, acquiring ownership of IP created by third parties to complement the company’s business needs. Assignments are also useful to spell out ownership rights. For example, where a company engages the services of an external design firm for the creation of trade marks, webpages and marketing brochures, the ownership of the copyright arising in such materials may vary depending on the nature of the relationship. If the company expects to own the IP to such materials, an assignment should be expressly provided for.

If the purchaser in a merger-and-acquisition (“M&A”) deal is interested in any particular IP believed to be owned by the target company, the purchaser should take care to verify that the IP is indeed owned by the target company and that the deal is structured so that the control of the IP will be vested in the purchaser. This may be done during due diligence process.

- Research – for example, it is common practice for a researcher to sign a separate undertaking on top of the usual employment contract to assign all IP created in the course of research to the organization and assist in the patenting activities as an inventor. Similar practices may apply to undergraduate/post-graduate students who may be involved in IP creation in the course of pursuing higher qualifications.

¹ If there are obligations by the assignee, the assignment agreement has to be signed by or on behalf of the assignee as well.

It's all about business

Buying and selling of IP is a business decision. As part of savvy IP management, a company should regularly review its IP portfolio to assess the relevance of the IP to the strategic intent of the company and identify those IP which are not. For the non-core IP assets, the company may divest them through a sale to gain financial return from the earlier investment on the IP and save on maintenance of the IP registrations. A company can also acquire IP which will complement its portfolio and strengthen its value proposition in the marketplace.

Some of the advantages and disadvantages of assignment in relation to the buyer and seller are considered below:

Advantages for Assignor	Disadvantages for Assignor
<ul style="list-style-type: none"> Released from continuing costs and responsibility of maintaining, policing and enforcing the rights. Relieved from the risks involved in exploiting the IP. 	<ul style="list-style-type: none"> Loss of IP ownership. This means absolute loss of control over use of the IP. Obtaining an overall smaller return on investment than commercializing the IP yourself or licensing it over a longer period of time.
Advantages for Assignee	Disadvantages for Assignee
<ul style="list-style-type: none"> No uncertainty over renewal of licences to use IP when they expire, since the IP will now be owned. Helps you gain a competitive advantage over your competitors for example by shortening the time you need to market your product, reduce your R&D costs. 	<ul style="list-style-type: none"> Difficulty in valuing the IP asset independently of the business, particularly trade marks.

A company acquiring IP rights can qualify for an automatic writing-down allowance on capital expenditure incurred subject to the condition that the legal and economic ownership of the IP rights lies with the Singapore entity and other provisions under Section 19B of the Income Tax Act. In addition to this, there are other IP-related tax schemes available for companies. For more information, please refer to the IRAS (www.iras.gov.sg) or EDB (www.sedb.com) websites.

Have you considered these?

Assignment is a major decision for both the assignor and assignee as it involves a permanent transfer of ownership. In most circumstances, such decisions are irreversible. Whether the IP adds substantial value to the assignor and the deal is a win-win for both parties are considerations that may influence your decision about the assignment.

Considerations for Assignor	Considerations for Assignee
<ul style="list-style-type: none"> Have you considered licensing instead of assignment? Would an exclusive license help generate more returns than an assignment in the long run? 	<ul style="list-style-type: none"> Have you considered creating or developing your own IP instead of acquiring it? As the upfront cost of licensing is typically less than an assignment, have you considered licensing instead of acquiring the ownership of the IP?

Considerations for Assignor	Considerations for Assignee
<ul style="list-style-type: none"> • As giving up ownership of the IP means you will no longer have control over the IP, do you not have any strategic or tactical use for the IP in future? • If assignment is still the preferred option, would you want to obtain a licence-back² to use the IP? • Who will you consider assigning the IP to? Will the assignee become a competitor after acquiring your IP? • Considering your earlier investments in terms of direct and indirect costs to create, develop, protect and maintain the IP, how much will you be willing to sell it for? To better ascertain its value, have you considered obtaining an independent valuation? • Do you intend to assign all rights to the IP, or just a part of the rights, e.g., for a particular duration, territory or other sub-set of your rights as IP owner? 	<ul style="list-style-type: none"> • How does the IP fit into your overall IP portfolio and business strategy? • Do you have the ability and necessary resources to realise its full potential for commercialization? • Does the IP best meet your needs over other competing IP? • Do you require the assignment to include a know-how transfer? • Are you open to a partial (e.g., limited right, geographical boundary) assignment? • Would you allow the assignor to use the IP after the assignment is complete?

Background checks – due diligence³

Due diligence checks on the IP is usually conducted after a non-disclosure agreement has been entered between the buyer and the seller and before entering into an assignment agreement. Appropriate resources should be set aside by the parties for due diligence. For the buyer, the due diligence will help to verify the assignor's rights and claims to the IP and reduce his risks related to the acquisition and provide him grounds to re-negotiate the price or other key terms of the assignment. Sellers sometimes also conduct due diligence of their own IP to limit their risk when making representations and warranties.

When conducting the due diligence it is also important to bear in mind the purpose to which the IP will be put so that the due diligence will be focused on verifying whether the buyer's objectives may be achieved.

² An assignment is a complete transfer of ownership of the rights, title and interests in the IP from the seller to the buyer, and thereafter, the seller can no longer use the IP. If the seller still wishes to use the IP, it may ask for a 'licence back', i.e., even though the buyer acquires ownership of the IP, it grants to the seller a licence to use the IP on terms agreed between the parties.

³ The subject of Due Diligence will be featured in a later factsheet under the IP Knowledge Kaleidoscope

Some matters to bear in mind during due diligence include:

- Identify all the IP owned by the Company as well as the IP which is being used presently (extending to any unregistered IP is owned by the seller);
- Check the ownership status of the IP, the geographical coverage, the IP history and maintenance fees, or renewal fees to ensure that the rights are still in force;
- Review all documents and filings affecting title to IP (security interests, releases of security interests, assignments, changes of name) to confirm a complete chain of title;
- Check on the existence and extent of encumbrances, such as licences, mortgages, charges, etc.;
- Review all Cease and Desist or demand letters sent out and received by the seller concerning the IP to assess the validity and strength of the IP;
- Review of all threatened and pending litigation concerning the IP and all settlement agreements pertaining to them to assess the validity and strength of the IP;
- Review agreements relating to any dealings with IP, for example, contracts with inventors, designers, artists etc.;
- Identify any third party IP which must be used in conjunction with the IP to be acquired, and if so, whether there are appropriate licences for this, whether the acquisition will affect the validity of these licences; and
- Review ancillary agreements which may be necessary to maintain the IP, for example, research and development agreements, facilities management agreements, disaster recovery agreements and software support and maintenance agreements. Can the agreement be transferred to the buyer?

Where the IP is registrable, searches of the records of all relevant registries should be carried out to confirm the ownership status, validity of the IP and whether there are any claims relating to the IP. For non-registrable IP, the creation and ownership history of the IP should be traced, and documents establishing these reviewed to establish a clear “chain of title”. Appropriate representations and warranties should also be obtained to ensure that the vesting of IP will be effective and that the seller has given disclosure of matters which may impact the buyer’s title to the IP being acquired, or his ability to use it.

Negotiating an assignment agreement

The terms of an assignment agreement are usually to be negotiated to suit both parties’ needs. Below are some issues you will need to think about when you negotiate an assignment agreement.

Issue	Points to consider
Parties	<ul style="list-style-type: none"> Is the IP jointly owned or to be jointly owned? If so, all owners should be named as parties to the assignment. If jointly owned, should the owners be joint tenants or tenants in common, and the latter, in what shares?
Subject matter	<ul style="list-style-type: none"> What is the IP being assigned? Is it trade marks, patents, copyright, or registered designs? Is the IP registered or a pending application or a future property that is yet to be created? What is the territorial scope of the assignment? If overseas IP rights are involved, have the local requirements for an effective transfer been met? Is it a total or partial assignment? If the IP is not registered / granted yet, is the right to claim priority also being assigned? Is the right to take action in respect of past infringements included? Is the IP clearly identified, for example, by its registration number, etc.? For trade marks, is goodwill of the business also being assigned? If not, is this permitted in the law of that country? Is it a partial assignment i.e., the assignee is transferring the right to use the mark in respect of only some of the goods or services? Has appropriate value for the goodwill been reflected? For copyright, what is the nature of the work and extent of the rights that are to be assigned? Is the assignment limited to part of the period for which copyright subsists? Have related rights such as “performers’ rights”, “moral rights”, recognized in some but not all countries, also been cleared?
Consideration	<ul style="list-style-type: none"> Is it a fixed lump sum payment? Is the agreed sum based on its valuation? Are bonus payments payable to the seller if certain sales targets are reached within a given timeframe?
Warranties	<ul style="list-style-type: none"> That the seller has the right, power and authority to enter into the agreement. That the seller is the exclusive owner of all right, title and interest in the IP and the IP is valid and subsisting. That there are no existing or threatened encumbrances against the IP such as licences or charges. If such exists, an obligation to obtain the release of these security interests should be made a condition precedent to the transfer. That the IP does not infringe the rights of others. That there are no claims, pending or threatened, with respect to the seller's rights in the IP. That the seller is not subject to any agreement, judgment or order inconsistent with the terms of the agreement.
Further assurance	<ul style="list-style-type: none"> A clause to ensure that the parties carry out any additional acts necessary to give effect to the agreement (such as informing the various regulatory authorities of the change in ownership and completing such documentation as may be required to record the buyer as the new owner), including the procuring of such acts by third parties. Who is to bear the costs of doing so?
Delivery of documents	<ul style="list-style-type: none"> Files and documents pertaining to the IP should be delivered to the buyer. This includes files on renewals, maintenance, pending applications, oppositions, litigation, certificates and contracts. For copyright, the necessary waiver of moral rights by the author should be obtained and delivered.

What next - registration of assignments

Once the assignment agreement has been executed, the assignee of a registrable IP right is strongly encouraged to record his interest in the register.

Issue	Points to Consider
Who to register?	<ul style="list-style-type: none"> The assignee
Why register?	<ul style="list-style-type: none"> To put third parties on notice Delay in putting your request for recordal may affect your ability to sue and claim damages, account of profits and statutory damages in respect of infringements.
Issue	Points to Consider
How do I register?	<ul style="list-style-type: none"> To record your interest in the register, the appropriate form with fee should be lodged with IPOS: <ul style="list-style-type: none"> ✧ For patents, please use PF24. ✧ For trademarks, please use TM22 for assignment and TM46 for security interest. ✧ For registered designs, please use D9. Recordal obligations for overseas IP rights should also be checked and complied with.

Useful Resources

- IPOS has an IP Management programme catered for SMEs. Please click [here](#) for more info or contact IPOS at Tel 6339 8616.
- For a list of IP professionals, please refer to SNIPS [here](#).
- For other topics featured on IP management, please click [here](#).

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Feedback

We seek your views on how IP Knowledge Kaleidoscope can serve the business community better. Please email us your feedback to ipos_enquiry@ipos.gov.sg.

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