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A GUIDE TO COMMON TECHNOLOGY-RELATED AGREEMENTS

I. AGREEMENT DEFINED IN THE CONTEXT OF THIS PAPER

An agreement is typically a written document which sets forth the respective rights and obligations of two or more entities. A sales or service agreement can describe the rights and obligations between a buyer and a seller of goods and/or services. A settlement agreement can describe the rights and obligations between two people resolving a dispute. A merger agreement can describe the rights and obligations between two businesses that have decided to form an entirely new entity. Even though agreements must typically have certain elements in order to be valid, it is beyond the scope of this paper and seminar to address all such aspects of agreements.

Therefore, this paper will discuss agreements which are commonly used, and which are useful, in setting forth the rights and obligations of parties in a business relationship in which one or more of the parties seeks to protect the proprietary nature of some technology that one or more of the parties has developed or seeks to develop. The likely parties involved in such agreements could be individual inventors, small businesses, large corporations, governmental entities, universities, and not-for-profit organizations.

The types of agreements that have been targeted for discussion in this paper include nondisclosure agreements, evaluation/material transfer agreements, consultation agreements, joint development agreements, and technology transfer licenses. Many terms are common to all of these agreements (such as the identification of the parties and signatories, the term, and the like) and will be discussed generally, and will not be repeated in the description of each type of agreement.

It is the purpose of this paper to generally inform people involved in technology development of the potential impact of agreements and their terms, since it is often the persons directly involved in the technology development who have first exposure to discussing the potential contractual relationship. Thus, such persons should be aware of the situations in which an agreement might be appropriate, be aware of the potential outcomes that certain provisions will mandate, have a general understanding about what the agreement is requiring of them, and know when to seek input from other people.

II. NONDISCLOSURE AGREEMENTS

A. General Nature of a Nondisclosure Agreement

The purpose of a nondisclosure agreement is to obligate a Recipient to maintain the confidentiality of proprietary information received from a Discloser. These types of agreements are sometimes also referred to as secrecy agreements or confidentiality agreements. Such an agreement can be appropriate in many circumstances: (1) where a Discloser seeks to enter discussions with a Recipient about obtaining financing for specific technology development; (2) where a Discloser seeks manufacturing or marketing assistance from a Recipient; or (3) even in the context of discussing with a salesperson potential modifications to a seller's product in which the Discloser needs to reveal information about its own product in order to adequately and effectively inform the salesperson as to the modifications sought.

B. Parties

No matter what type of agreement is involved, the parties to the agreement must be named and identified. The identification is typically done by providing the parties' names, addresses, and their legal status (e.g., "an individual," a "North Carolina corporation"). In all agreements, the parties identified are the entities who will be legally bound by the agreement. The persons who actually sign the agreement must be the persons who are authorized to sign on behalf of the respective parties that have been identified. In most cases the parties to the agreement will be the legal entity that owns the information, or is conducting the activities relating to the use of the information. For example, in the case of a corporation, it is generally the corporation that will own the technology and who will be bound by the agreement. Where that is the intent, it is the corporation that will—or should be—identified.

When an individual is identified as a party, the individual must have the legal capacity to sign, that is, must be of legal age and of proper mental capacity. Where an individual is the intended party, it is usually a straight forward task to determine the identity of the party and name the authorized signatory. In the case of an organization, it is critical to ensure that the party signing on behalf of an organization has the authority to sign and thus to obligate the organization. Otherwise the agreement may be entirely invalid. In most cases, very few employees have the authority to sign on behalf of an organization and thus bind the organization. In many cases, for certain types of agreements, only an officer has the authority to sign. Thus, it is very often the case that the person authorized to sign a nondisclosure agreement on behalf of the corporation is not the person who will be involved in the confidential disclosure. This can create difficulties within an organization to track which employees are receiving or disclosing confidential information, and with whom the organization is entering contractual relationships. To address this situation, many times the nondisclosure agreement will identify the persons involved in the disclosure, and will restrict disclosure only to or from those persons.

Beware of agreements that identify the parties by reference to the signature line, or that are in the form of a letter addressed to an individual at a company, and do not otherwise identify the party that is to be bound. Ensure that such references do not create ambiguity. From a personal perspective, individuals who sign nondisclosure agreements—and particularly in the context of these informal form-type agreements—should look carefully at the signature line and content of the agreement to verify the capacity in which they are signing and to ensure that they are not binding themselves personally to obligations that properly belong to their employer.

C. Subject Matter/Purpose of the Disclosure, and Permitted Uses

A nondisclosure agreement typically identifies the subject matter to which the confidential information relates, the purpose for which the disclosure is being made, the uses that are permitted, and restrictions on use. Where the subject matter of the agreement is spelled out, then any information not related to that subject matter is arguably not covered by the agreement. Stating the purpose of the disclosure limits how a Recipient may utilize the information internally. Restrictions on use add an important safeguard, spelling out what the Recipient cannot do with the material. For example,

> "This agreement relates to the use of Discloser's compound X in adhesives. Recipient shall use the Confidential Information solely for the purpose of evaluating Discloser's compound for use in connection with Recipient's water-based adhesives. Recipient shall not use any Confidential Information for its own benefit or for the benefit of a third party or for any purpose other than to provide the evaluation services requested by Discloser, and shall not disclose the Confidential Information to any third party without the prior written consent of Discloser.

Where the technology is important, the lists of restrictions and conditions on use can be very lengthy. Whether long or short, they should be read carefully. From the Discloser's perspective, it is important to be sure that sufficient safeguards are included to protect the information so that it is not used to benefit Recipient without further negotiation or payment. From the Recipient's perspective, it is important not to be so limited, or so unclear, that the Recipient's own ongoing research and development efforts could be impacted.

D. Term

Nondisclosure agreements will generally define the time when the confidentiality obligation ends. This time period depends largely upon the nature of the disclosures, for example, the type of technology, the stage of development of the related product, and the purpose of the disclosure. The term can be any length of time, typically not less than one year, but sometimes as much as five or ten years. The term can also be unlimited. An unlimited term, however, is generally advisable only in rare circumstances. As a practical matter, an organization would find it difficult to monitor an obligation of that length. Additionally, and perhaps more importantly, such a long-term obligation potentially hinders a party's own development activities by restricting use and disclosure of information which may in actuality be obsolete.

The agreement may also set forth a time limit in which all disclosures must occur. For example, the agreement may require that all disclosures are made within one year of the date of the agreement, and that the obligation to confidentiality terminates at some stated time beyond that date. This approach is sometimes used to gain more control over the nature and extent of the disclosures contemplated by the nondisclosure agreement.

E. Nature of Confidential Information

It is very important for the agreement to define the type of confidential information that will be disclosed. In many cases it will only be written material, for example, the contents of a patent application (which is typically identified by filing date and serial number). However, it may also include data, formulae, processes, designs, sketches, customer lists, pricing information, studies, findings, inventions and ideas. It may involve information transferred in oral form or gained through visual inspection. The parties may require that such non-written disclosure either be reduced to writing, or confirmed in writing. The agreement can also require that all documents disclosed be marked confidential, and that all confidential information will be returned to the Discloser by a certain date, or its destruction confirmed.

The agreement will typically recite exceptions to confidential information. This provision makes it clear that a Recipient is not obligated to keep information confidential which is simply not confidential. Such exceptions include: (1) information which is available to the general public at the time of the agreement; (2) information which becomes available to the general public through no fault of Recipient; (3) information which was in Recipient's possession prior to the date of receipt from Discloser; or (4) information which was disclosed to Recipient by a third party who had the lawful right to disclose the information. Recipients should beware of agreements that do not include reasonable exceptions. Otherwise, they can find themselves prevented from using information that is freely available to, and being used by, their competitors.

F. Compensation

Typically, no exchange of money accompanies a nondisclosure agreement. The value of the agreement is in the mutual value of the exchange of the confidential information, such as the potential for a mutually agreeable commercial relationship in the future. One party receives the privilege of obtaining confidential information in exchange for evaluating the information; the other receives the benefits of the evaluation of the confidential information in exchange for disclosing confidential information.

G. Conclusion

Nondisclosure agreements are commonly used. Because of their wide use, and because they are often approached almost like fill-in-the-blank forms, they are often signed without very much internal review. Beware of this practice. Significant protections of proprietary information can be lost through carelessness in reviewing the terms of a Nondisclosure Agreement. Our firm has seen agreements entitled "Nondisclosure Agreement" that overtly stated that the Recipient had **no duty** to keep the information disclosed confidential!

III. EVALUATION/MATERIAL TRANSFER AGREEMENTS

A. General Nature of an Evaluation/Material Transfer Agreement

An Evaluation Agreement or Material Transfer Agreement contemplates that disclosure will involve, in addition to other confidential information, the transfer of some particular proprietary composition or biological specimen (referred to generally in this paper as "sample"). To the extent the disclosure relationship will also involve written or other forms of confidential information, the considerations outlined in the previous section will also be appropriate for an Evaluation/Material Transfer Agreement.

B. Subject Matter/Purpose of Evaluation/Material Transfer Agreements

This type of agreement will typically set forth the specific purpose for which the sample may be used, and limit any further disclosure or use to that purpose. Such uses may include "for research purposes only" or "for the purpose of evaluating the potential commercialization of the sample." To ensure that use of the sample is limited to the stated purpose, it is desirable to add certain restrictions on what a Recipient may do with the sample obtained.

The agreement may, therefore, include a prohibition against analyzing the chemical composition of the sample, and a restriction as to the further dissemination of the samples to ensure that samples do not enter the possession of any third party. The agreement may require, for example, that the sample be kept in a certain location, or under the direct control of a certain individual. Additionally, the agreement may require that all samples be returned or destroyed at the end of the evaluation, or by a certain date.

C. Special Considerations Related to Evaluation/Material Transfer Agreements

In Evaluation/Material Transfer Agreements, the supplier of the sample usually retains ownership and full control over the use and dissemination of the sample. The agreement may overtly state that no other license to use is granted by the agreement. In some cases the agreement may state that the supplier shall own any inventions or discoveries made by the Recipient through use of the sample. The details of determining the ownership of any inventions which result from the study can be complex and are largely dependent on the type of evaluation that is contemplated by the agreement. In some cases the supplier will agree to grant a license to the Recipient for use of any discoveries, or will obligate the Recipient to grant a license to the supplier in such discoveries. The terms of any resulting license will most likely be detailed in a separate license agreement.

In any case, however, it can be very important to address how the supplier is entitled to utilize the results of the evaluation. For example, a Recipient may wish to publish the sample study results or pursue a commercial application for the sample. These types of uses can involve a potential public disclosure of the proprietary sample that could jeopardize patent rights. (Keep in mind that a U.S. patent application must be filed within one year of any public disclosure of the invention, and that public disclosure can preclude foreign patent rights). To avoid this potential relinquishment of patent rights, the agreement will often prohibit or restrict a Recipient's use of study results. The agreement may require that a Recipient notify the supplier of any potential publication or presentation of evaluation results, or of any commercial product developed through the evaluation, and may further require that the supplier has the right to approve or prohibit the publication or presentation of any results.

Another term sometimes appropriate for an Evaluation/Materials Transfer Agreement is the express provision that the sample is provided with no warranties. A supplier may expressly state that the sample is experimental in nature and that no warranty is made that the sample is suitable for a particular purpose. In some cases the Recipient may be required to indemnify the supplier for any loss or damage resulting from Recipient's use of the sample. These types of provisions can involve the parties making substantial obligations and should be reviewed carefully. As a result, the negotiating of such provisions can sometimes delay the finalization and execution of the agreement.

D. Conclusion

As with the Nondisclosure Agreement, these types of agreements often do not involve the exchange of money as consideration for the agreement, but rather involve the mutual benefits that result from the exchange of information and the opportunity to review and evaluate such information.

IV. CONSULTATION AGREEMENTS

A. General Nature of a Consultation Agreement

The Consultation Agreement in substance is not very different from the Nondisclosure Agreement or the Evaluation Agreement. Common situations in which Consultation Agreements are utilized are those in which a third party is hired by an entity to evaluate certain technology for a specific purpose, to provide technical support for a certain technology, or to assist in further research or study of a particular technology.

The Consultation Agreement is separately identified here because parties sometimes do not recognize the need for an agreement. For example, a salesperson may often be as much a consultant as a salesperson. In an attempt to sell a composition to a customer, for example, a salesperson may obtain confidential information about a customer's product as the salesperson works to modify the composition to suit the customer's needs. In this manner, the salesperson may learn much about the customer's products. It may be appropriate to require the salesperson to sign a Nondisclosure Agreement or a Consultation Agreement before disclosing the information. The customer should also consider the potential risk that without an agreement, the salesperson may be free to use or disclose the information he or she learns from the customer in servicing the salesperson's other accounts, who might be the customer's competitors.

B. Special Terms in a Consultation Agreement

The Consultation Agreement will most likely contain the types of provisions found in a Nondisclosure Agreement. The agreement will also set forth the details of the consultation, for example, the number of on-site and off-site hours expected, the consultant's hourly rate, and expense reimbursement provisions.

The agreement will also identify the parties' respective rights in any inventions or ideas that result from the consultant's work. Typically, the party hiring the consultant will retain all rights to anything developed in the course of the relationship. It is important be clear about ownership rights. Just because a company has paid for work does not mean it owns all rights in the work. Indeed, the opposite is true in many circumstances. If the company and the consultant are considering "joint ownership" of the result of the work, they should be very clear about what that means. In the patent context, for instance, a joint owner has the right to exploit an invention without regard to what the other owner wants, and to retain all profits without sharing them. In the copyright context, on the other hand, a joint owner must account to the other owner for all profits.

V. JOINT DEVELOPMENT AGREEMENTS

A. General Nature of a Joint Development Agreement

A Joint Development Agreement addresses the situation in which two or more parties intend to collaborate in efforts to develop a particular product or undertake a particular study or evaluation. This type of agreement is also sometimes referred to as a Collaboration Agreement. Again, terms typically found in a Nondisclosure Agreement or an Evaluation/Material Transfer Agreement are generally appropriate in this scenario and may be incorporated into the Joint Development Agreement. The Joint Development Agreement, however, must incorporate additional terms that address the parties' respective contributions to the venture, and rights to the product of the Joint Development. It may be anticipated that the result of a Joint Development Agreement will be a new composition, or new use for a known composition, or an improvement to a process or piece of equipment.

B. Respective Contributions

The Agreement will set forth what each party will bring to the development project. One party may provide solely financial support. One party may provide a particular composition and the other party may provide particular know how for newly applying the composition to a product or use.

C. Ownership

The Agreement will outline the respective rights of the parties to utilize the outcome of the joint development. The respective rights may be set out specifically. For example, each party may be entitled to freely use and further license the joint development product. The parties may agree to cross license each other to utilize the product, or may agree to later negotiate a separate license agreement related to the jointly developed product. A significant issue that may arise in a Joint Development Agreement is the extent to which individual employee inventors have an obligation to assign their inventions to their employer. Thus, the issue of ownership should be addressed and decided prior to any collaboration so that an organization's rights are not inadvertently jeopardized. Additionally, a funding source, for example the federal government, may also have some rights, or at least some control, as to how the resultant invention is licensed or transferred.

The agreement should also address which party owns improvements to the technology. They may be jointly owned or be required to be assigned to one party or the other. If jointly owned, the agreement may require that improvements be promptly disclosed to the other party.

D. Performance

The agreement should address how each party is to perform and set forth the milestones and/or quality requirements for measuring performance. The performance may include monetary milestones, for example, that a specific dollar amount be paid once a certain phase of the development is complete.

Since it is often anticipated that the joint venture will result in a patentable invention, the agreement should also identify which party will handle the patenting of any such invention. The responsibilities should include the filing of any U.S. and/or foreign applications, the prosecuting of the applications, and the maintaining of the applications/patents. The agreement should further identify which party will be responsible for marketing and licensing the jointly developed property, and what such responsibilities entail. Additionally, the parties should state in the agreement the manner in which the expenditures and any resulting proceeds should be divided, such as the proceeds obtained from licensees.

The issue of public presentation of the jointly developed product and any improvements must also be addressed. The agreement will usually require that each party inform the other of any potential public disclosure, and will enable one party to approve or restrict the public disclosure of the other party.

The agreement may also address the issue of enforcing the patents or defending against claims of infringement which may result by reason of the joint development. For example, the agreement should identify which party shall be entitled to sue for infringement, how such related costs will be divided, and how any resulting proceeds will be divided. In addition, the agreement may require joint cooperation in the defense against claims of infringement, identify who will be primarily responsible for the defense, and how the costs of such defense will be appropriated. The recently passed CREATE Act provides a means for excluding potential prior art if it is applicable to the situation. However, once invoked, the CREATE Act can potentially cause the agreement to tie the parties together for the life of the patent. Such an eventuality can severely hamper the future viability of a proposal to sell, license or otherwise transfer the patented technology.

E. Conclusion

The Joint Development Agreement is more complex than the Nondisclosure Agreement since it describes and contemplates a more detailed relationship between the parties. Each party is obligating resources and assuming risks that must be carefully examined and balanced.

VI. TECHNOLOGY TRANSFER LICENSE

A. General Nature of a Technology Transfer License

A Technology Transfer License can be straightforward or complex depending on the nature of the technology licensed, the expected life of the license relationship, and the economic environment surrounding the licensed technology. In addition to the terms previously discussed with respect to nondisclosure, and the like, the Technology Transfer License will typically describe a more complex relationship and involve more details regarding the parties’ respective rights and obligations. Because of the complexity of such agreements, only a brief description of the most general terms will be provided in this paper. In this context, usually one party has already developed some technology that the other party is desiring to use.

B. The Grant

The license will describe in detail the rights granted. The rights may be exclusive (that is, the licensee is the only entity obtaining the rights) or non-exclusive (that is, the licensor may grant similar rights to other licensees). The license may be limited to certain geographic areas or may be worldwide, or may be limited to a certain market channel. The parties should contemplate whether the licensee will be able to expand into other territories, and be permitted to compete with the licensor.

The grant of a license may include the right to practice a certain patent, the right to obtain know how (which may not be information included in the patent, for example, the commercial application of the technology), and the right to use trademarks associated with the technology. The product, technology and/or trademarks licensed should be precisely identified and defined.

C. The Term

The license should set forth the term, which is the length of time the licensee is permitted to exercise its rights under the license. The term can be renewable. The license will also set forth conditions under which the parties may terminate the license prior to the expiration of the term. One party may be able to terminate if the other party does not live up to its obligations under the license, or if one of the parties goes bankrupt, if there are no sales, or if royalties are not timely paid.

D. Royalties/Payments

The license will set forth the structure for license fee payments sometimes as a one-time fee, or an ongoing royalty rate. The royalty rate can be a set royalty for the entire term of the agreement, proportional to sales, or structured by years. The provisions related to royalties will typically dictate when royalties are to be paid, to whom they are paid, and what types of royalty reports must be provided to the licensor. The agreement will typically enable the licensor to audit the licensee's business records.

Negotiating the royalty provision can involve the most energy since it is in many respects the "bottom line" of the license. The parties may have differing opinions as to how royalties should be calculated, for example, whether they are based on net sales or profits.

E. Standards for Performance

The license may specify milestones in the progress of commercialization to ensure the licensee is properly working the license. Milestones may be more important to identify if the licensee is an exclusive license since the licensor is not obtaining royalties on the licensed product from any other source. The licensor may require that the licensee pay a minimum royalty to encourage commercialization of the product.

The license will generally require that the licensee maintain certain quality standards in operating under the license, for example, minimum quality standards with regard to the provision of goods and or services, and the requirement for marking products and/or services with the appropriate patent and trademark information.

The license may further require the licensor to provide a minimum amount of training, consultation, and the like, to assist the licensee in operating under the license, for example, assisting the licensee in putting into practice the technology licensed.

F. Infringement/Enforcement

The license typically sets forth the parties' respective duties and rights for pursuing infringers, including whether the licensor or licensee shall pursue, how the costs of the pursuit and any proceeds resulting therefrom shall be apportioned. The license will also identify the licensor's obligations to defend against claims of infringement against the licensor or licensee and the extent to which the licensor must defend.

Additionally, the license may require one or the other parties to indemnify the other party for any injuries that result from use of the licensed technology. It depends largely on the relative rights and bargaining positions of the parties as to which party will be required to undertake such obligations.

G. Warranties

Each party typically warrants that they have the right and are free to enter the license, that the licensor owns the technology to be licensed, and that there is no known infringement, and that any licensed patents are valid and subsisting. The warranties may state that the technology is or is not fit for a particular purpose.

H. Miscellaneous Provisions

The license may also contain a number of miscellaneous provisions. Such provisions include: (1) Identifying which state law controls the agreement; (2) identifying that effective notice to each party shall be to a specific location and done in a specific manner; (3) requiring that in the event of a dispute between them, the parties agree to arbitration or mediation; (4) emphasizing that the license as currently executed comprises the entire agreement between the parties; and (5) requiring that all modifications to the license must be in a writing executed by both parties.

VII. A WARNING

Although significant agreements typically are and should be in writing, it is possible to enter into an enforceable verbal agreement. Also, even informal writings—including email correspondence—can be enforced as agreements. This is true for each and every one of the types of agreements discussed above.

It is not uncommon to have lawsuits arising out of "term sheets" and similar documents that one party thought were binding and the other treated as mere discussion. Therefore, when negotiating the terms of an agreement, it is important to distinguish between the negotiations and the final agreement. A header on written documents such as "proposal - for discussion only" or "for negotiation only" is advisable during the preliminary stages to avoid confusion.

In that same vein, individuals handling discussions and negotiations should carefully review all communications with the other party. It is important not to make an unintentional offer, and not to unintentionally accept another party's offer. An email that says, "I'll send you the specs as long as you'll look at them right away. $200/hour sound about right?" might constitute an offer; and a responsive email that says, "Sounds good! Send 'em on!" might be enough to constitute an acceptance. Yet this exchange contains no discussion of confidentiality obligations, nothing about time to complete the work, nothing about total cost, and nothing about who will own inventions. The law may well fill in those blanks in ways that neither party contemplated.

VIII. CONCLUSION

It is impossible in this venue to provide a comprehensive list of all the provisions that might be included in the agreements discussed, or to describe the potential scope of each provision. An agreement should attempt to find a win-win situation for both parties which will require a party to balance between insisting on certain provisions and compromising on others.

Even though a licensing administrator or an attorney will typically prepare the final documents incorporating the terms of the agreement, often the identification and negotiation of agreement terms occur long before any involvement by the ultimate drafters. Therefore, it is important that the persons involved in technology development have an awareness of agreement terms early in the process, preferably PRIOR TO ANY DISCLOSURES AND PRIOR TO ANY VERBAL OR WRITTEN COMMITMENTS.

An informed person will be more sensitized to the potential problems involved in technology development and technology transfer, and will know to cease discussions if certain contractual protections are not yet in place. A person knowledgeable about the potential pitfalls in a contractual relationship can, early in discussions, target those rights and/or obligations that are essential to the agreement, and those areas that could be compromised. Perhaps most importantly, that person will also know when to seek input from other people before any harm to the technology has occurred. Armed with at least a basic awareness, persons involved in technology development transactions can more wisely pursue and conduct technology transfer agreements.