

# AGREEMENT GUIDELINES

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## TRANSFER OF OWNERSHIP

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## **Introduction**

The purpose of these guidelines is to support the use of the associated model agreement for trade in IPR. The guidelines expand on and explain the various clauses of the agreement. The guidelines also contain proposals for a number of alternative solutions when special circumstances may advocate deviation from the agreement template. It must be emphasised here that the agreement is only intended to be a model which in all cases must be adapted to the specific circumstances of a given project. Finally, it must be noted that the guidelines are not exhaustive and should not be considered a replacement for professional advice.

The agreement and these guidelines can be used in several ways. The company can use the agreement directly as a basis for negotiations, as a source of inspiration when drawing up a separate agreement or as a checklist when the other party is responsible for producing the first draft agreement.

## **Transfer of ownership or use – simple or exclusive right?**

In their selection of an agreement type, the parties have the option of choosing between different transfer models. The decisive factor in this choice is first and foremost whether ownership is to be transferred (agreement A), meaning the Seller loses any right of disposal over the Invention, or whether the transfer only covers use (agreement B or C). The decisive factor, whether it is a question of a transfer of ownership or transfer of use, will be whether all “ties” to the transferor are severed when the agreement is concluded. Transfer of use is also referred to as a licence being bought/granted for use of the Invention for a specific period. With regard to a transfer of use, a position must also be taken on whether the Seller grants the Buyer a non-exclusive licence (agreement B) or an exclusive licence (agreement C).

With regard to **transfer of ownership**, the Buyer acquires all rights to the Invention, including the right to decide on the waiving of the right and subsequent reassignment, and also the right to ban third parties from carrying out actions which infringe the exclusive right to the Invention. In this context it should be noted, however, that section 7.1 of the agreement allows for an explicit duty of use to be imposed on the Buyer for the purpose of avoiding a so-called “defensive acquisition”. Please also see section 7.1 of the guidelines generally.

With regard to **transfer of use**, the Buyer acquires only the right to dispose of the Invention in the manner and within the agreed period of time described in the agreement – and where appropriate also only within a specific geographic area, see section 3 for details on this. A principle of restrictive interpretation likewise applies, which means that it is only the explicitly allocated right of use to the Invention which can be claimed by the Buyer.

The choice between transfer of ownership and transfer of use will thus also depend on a great number of financial aspects, including a desire to have the payment made once and for all, the possibility of finding a basis for setting a purchase price, the possibility of specifying the size of a licence fee or the income basis on which the licence fee will be calculated at an early stage, or a desire to restrict the rights of the company in time or geographic terms.

## **1. PARTIES**

It is important that the parties are specified correctly. The parties to the agreement should be specified by listing their full names and addresses. If it is a question of a company, the company's current CVR number should be specified in the agreement since this number provides an accurate identification of the company. This may be crucial if the party in question is part of a major group of companies so that it can be clearly established with which of several subsidiaries (perhaps with very similar names) the trade is taking place. If it is a question of a natural person, the CPR number or equivalent will ensure that identification is adequate.

## **2. PURPOSE**

The agreement should contain an introduction which clarifies the purpose of the project and the conditions which form the basis of the parties' involvement. The project should be described as precisely as possible. A more technical and detailed description of the project should be included, but it may be possible to refer to already prepared project descriptions that can be enclosed as appendices to the agreement.

Furthermore, the parties' conditions for and purpose behind entering into the agreement must be described. It should be clear why it is these particular parties who are entering into the agreement. Such a description of purpose will ensure that the parties thoroughly consider and discuss their different expectations for the project, thereby enabling the prevention of subsequent conflicts.

It is important to be aware that, regardless of whether many purpose clauses take a different form than the more specific agreement clauses, they will in the event of a conflict constitute a contribution to the interpretation of the understanding of the rest of the agreement. Consequently, they must be drawn up with as much care as the other clauses of the agreement.

## **3. DEFINITIONS**

The agreement should contain definitions of important terms to ensure that these terms are understood in the same way by the parties to the agreement. Important terms is taken to mean e.g. "Confidential Information" (which information is confidential?), "Knowledge of the Parties" (within which area and at which time?), "the Product", "the

Area”, etc. A choice can be made as to whether to write the terms defined in section 3 of the agreement with an initial capital in the agreement out of consideration for precision. A similar choice can be made with regard to whether the agreement refers to the “Buyer” and “Seller” with initial capitals.

The definition of “the Invention” will be easy in cases where at the time the agreement was entered into a patent application or utility model application had been filed, since reference can simply be made to the relevant patent, utility model application or registration number. The parties should make sure to extend the definition to also include e.g. subsequent patents and to provide information on patent applications that may take priority over the application in question.

If, at the time the agreement is entered into, such an application or registration has not been filed, we recommend advice be sought before the agreement is concluded since it may be appropriate to describe the Invention in much more detail.

#### **4. THE SELLER’S MAIN OBLIGATIONS**

It is important that the agreement covers the extent of the Seller’s obligations since any subsequent doubt could lead to a serious conflict between the parties. In the event of a transfer of ownership, the Seller waives full right of ownership to the Invention. Nevertheless, the parties should ensure that the subject of the agreement is defined and described clearly so that the transfer of rights does not extend to a greater extent than the Seller had intended. This should be done by uniformly referring to the patent application so that the parties can use the description of the Invention provided in the patent or utility model application.

The clause is worded in such a way that rights to the Invention also cover the transfer of other material, documentation and related know-how, copyrights, etc. In this instance, the parties should be aware that this applies to all material which the Seller is in possession of, including manuals, technical drawings, product specifications, material samples, etc.

## **5. THE SELLER'S OTHER OBLIGATIONS**

### **5.1 The Seller's right to the Invention**

The Seller must guarantee that he owns the exclusive right to the finished Invention, this being a prerequisite for the Seller actually being entitled to transfer the Invention.

If the Seller does not own the right himself, this may mean that the Buyer will not acquire the presumed right of ownership and the foundation for the Buyer's production or business based on the Invention will disappear if a third party can claim justified opposition. In these situations the agreement allows the Buyer to cancel the agreement.

The Buyer should be aware of whether the Invention (typically a filed or registered patent) is dependent on another patent, e.g. because the Invention is an improvement of or a new form of use for a previous invention for which someone else holds the patent. If this is the case, the Buyer should find out about the circumstances and if necessary seek advice to ensure that the transfer of the Invention also covers the right to use such underlying rights which are essential to the continued use of the Invention.

As a general rule, the Seller is responsible for ensuring that the right exists and is registered on the markets where the Buyer is acquiring rights. Although the obligation is incumbent on the Seller, the agreement does not contain any guarantee that the patent cannot be declared invalid. Instead the agreement allows the Seller to provide a declaration that the rights of which the Seller is aware do not conflict with the rights of others.

### **5.2 The Seller's access to transfer to other buyers**

The clause precludes the Seller from transferring the Invention to other buyers since a transfer of ownership naturally means that the Seller and his creditors etc. are prevented from disposing of the Invention by selling it, pledging it as security or in debt recovery proceedings or disposing of it by other means. The Buyer should always – in the event of issued patents or utility models – immediately apply to have the Invention re-registered under a new name so that conflict cannot arise at a later time with the Seller's creditors.

### **5.3 The Seller's modifications and further development**

#### **5.3.1 No option to purchase**

The starting point of the agreement is that the benefits arising from developments, improvements and similar modifications made by the Seller should also go to the Seller. With this in mind, it should be noted that in respect of patents and utility models the Seller may only make developments, improvements and similar modifications within the exemptions to the exclusive right laid down in the Danish Patents Act and the Danish Utility Models Act respectively.

When ownership of the Invention is transferred, the parties will thus often opt not to give the Buyer an option to purchase the improvements to the Invention which the Seller may make. Where ownership is transferred, the Seller has usually only received a one-off payment, which means that the agreement should not bind him to give the Buyer a right to purchase future improvements etc. at a later date.

Should the parties wish the Buyer to be able to secure access to the Seller's subsequent improvements, the parties can instead use one of the following models in the agreement.

#### **5.3.2 Option to purchase**

The parties can, however, still opt to insert a clause stating that the Buyer will be entitled to purchase the further developments of and improvements to the Invention which the Seller makes in the period after the transfer. Since in cases where ownership of the original Invention has been transferred there is rarely a market for further developments beyond the Buyer, a clause should not be drawn up as a right of first refusal clause, where the Buyer is able, where appropriate, to buy at the same price and on the same general terms as a third party would have offered. Instead the clause should be drawn up as an option to purchase clause, where the Buyer is entitled to buy the further development within a specific time window. Should the Buyer not exercise this right – or should the parties be unable to agree on terms – this leaves the Seller free to sell the further development to a third party on terms and at a price that are identical to those which the Seller could not convince the Buyer to take up.

If the Seller is contacted by a third party before the terms of the option to purchase are presented to the Buyer (or while negotiations with the Buyer are in progress and before the expiry of the window), the Seller must be aware that a subsequent offer from a third party will trigger the duty to ask the Buyer if he wishes to exercise his option to pur-

chase, even if the Buyer has previously rejected the opportunity to purchase the improvement on comparable or almost comparable terms.

If the parties would like such a clause, the text below could be inserted as an alternative:

*"For a period of [xx] days after the Seller's written notification to the Buyer that the Seller has further developed or improved the Invention, the Buyer has an option to purchase this development or improvement. If the Buyer wishes to exercise the option to purchase, this shall take place by written notification to the Seller within the deadline indicated. If the Buyer does not provide written acceptance before the expiry of the deadline, the Seller is entitled to make an offer to a third party on terms which are no more beneficial for the third party than the terms which were offered to the Buyer.*

*In the event that a third party makes an offer for the Seller's improvement before the Buyer has had the opportunity to make a decision on the issue in accordance with the procedure described above, the Seller is obliged to first send in writing an offer to the Buyer on terms comparable to those offered by the third party. If the Buyer does not provide written acceptance before the expiry of the deadline, the Seller is entitled to accept the third party's offer."*

#### **5.4 The Seller's assistance**

As a starting point, the right to apply for patent protection rests with the inventor or inventors but the right can however be freely transferred to others. If a patent application has not yet been filed, this clause directs the Seller to provide the Buyer with the necessary non-financial assistance to have the Buyer's patent for the Invention registered.

### **6. THE BUYER'S FINANCIAL OBLIGATIONS**

The basic idea behind the agreement is that the Buyer will not have any obligations to the Seller following the transfer. For this reason the payment principle in this situation is also that the Buyer should only pay a lump sum (one-off payment) to the Seller, after which the Seller no longer has any rights in respect of the Buyer (apart from ensuring the duty of use is complied with, cf. information about this under section 7.1).

For a simple agreement like this one, it is also essential for the expenses incurred in order to administer any regular payment not to erode the value of the sum paid.

Nevertheless, the parties can – in addition to the payment of a one-off payment – agree on a regular payment in the form of royalties, which is triggered every time the Buyer uses the Invention, typically when products based on the Invention are sold.

## **7. THE BUYER'S OTHER OBLIGATIONS**

### **7.1 Duty of use**

If the Invention relates to a technology or a product that is in competition with the Buyer's own production, the Buyer may be interested in ownership in order to set aside the Invention in question for the purpose of getting rid of the competing product (a so-called "defensive acquisition").

Since this type of acquisition is not desirable for either the Seller – who presumably is interested in seeing their invention used and therefore has an interest which extends beyond the payment – or society in general, the agreement therefore contains explicit rules on duty of use. The duty is sanctioned contractually by providing the Seller with the opportunity to cancel the agreement and demand compensation etc. in the event of a failure to use the Invention.

Conversely, the parties have an interest in settling their obligations once and for all in a situation where ownership is transferred. In such cases the clause on duty of use can be omitted from the agreement.

## **8. BREACH**

An agreement has been breached when one of the parties does not comply with the duty that the party in question has undertaken in respect of the other party by virtue of the agreement. The agreement should contain clear guidelines on breach of agreement, including in which situations the agreement is deemed to have been breached.

It is recommended that in light of this the parties consider which situations they believe should be characterised as a breach of the agreement. In this way the parties are able to make it clear that circumstances which perhaps in other contexts would not be characterised as a breach may in the given context have the desired effect.

The agreement's breach clause makes it clear that a party may cancel the agreement in the event of the other party breaching the agreement. This is, however, contingent on the breach being a gross infringement of the agreement – something which is classed as a material breach. An example of a material breach is if the Buyer does not pay the agreed purchase price, fails to comply with a special duty of use or an unlawful transfer to others of the Invention to which a minor further development has been added.

## **9. COMPENSATION**

According to this clause, each of the parties is liable to pay compensation for their negligent or wilful actions (or omissions). This is the usual starting point in Danish law.

The clause specifies some restrictions in the parties' liability to pay compensation which are customary in compensation situations but, as it makes clear, such restrictions do not apply if a wrongful act or omission has been wilful or grossly negligent. The reasoning is that it must not be possible to restrict the consequences of this type of serious breach.

## **10. CONFIDENTIALITY**

The confidentiality clause means that the parties undertake to keep secret the information they may acquire about the Invention in connection with the collaboration, most often also after the expiry or termination of the agreement. In this way the parties are protected in addition to the provision in section 19 of the Danish Marketing Practices Act on trade secrets. Conversely, the parties should specify the confidential know-how in such a way that a broad duty of confidentiality does not unnecessarily restrict the party's subsequent opportunity to pursue a profession. Please see the guidelines for the confidentiality agreement.

## **11. INFRINGEMENT OF THE INVENTION**

This clause takes into consideration the fact there is a risk of one or more competitors wishing to manufacture products that infringe the rights transferred to the Buyer. The agreement entrusts the Buyer with the responsibility for pursuing the infringement by a third party and putting a stop to it.

## 12. INFRINGEMENT OF OTHERS' RIGHTS

With regard to transfer of ownership, the Buyer himself is responsible for taking any legal measures. In the event of such infringement cases, the Seller can provide the Buyer with reasonable non-financial assistance, but should not undertake to manage or participate in legal action or similar proceedings against potential rightful owners.

This clause must, however, be seen in the context of section 5.1 **Fejl! Henvisningskilde ikke fundet.** of the agreement, in which the Seller declares that to the best of his knowledge the exercising of the right to the Invention does not infringe third party rights. If it transpires that the Seller knew, or should have known, that the Invention did infringe third party rights, the Buyer will be able to cancel the agreement and demand compensation from the Seller. In such cases the parties are recommended to seek advice.

## 13. LEGAL VENUE

In the event of a disagreement between the parties in connection with this agreement, the parties should open negotiations with a view to resolving the dispute.

Should this not settle the dispute, each of the parties is entitled to request the disagreement be settled by general court proceedings. Alternatively, the parties may agree that the disagreement is to be settled by arbitration.

As a starting point, the agreement enables the parties to bring the case to the general courts (for this type of case it is usually the Danish Maritime and Commercial Court), since there are no grounds for allowing a simple dispute over, e.g. the size of an amount due, to be governed by arbitration proceedings. These will often be significantly more expensive than proceedings at the general courts because the parties have to pay arbitration fees and the parties of an arbitration case do not have the opportunity to appeal the decision to a higher instance either.

Conversely, the advantage of arbitration proceedings is that this method is a private process without the openness which is characteristic of legal proceedings at the general courts. The cases are often decided more quickly than normal legal cases, something which also entails a risk of an appeal process. If the parties wish the case to be settled by means of arbitration, this clause can be amended in accordance with the text below:

*"Any dispute that may arise in connection with this agreement shall be decided finally by arbitration according to the 'Rules of procedure of the Danish Institute of Arbitration'.*

*The arbitral tribunal is appointed by the Danish Institute of Arbitration in accordance with the abovementioned rules. In their written complaint the claimant may propose someone as their arbitrator, while in their written answer the respondent may propose someone as their arbitrator. The third arbitrator, who is the chairman of the arbitral tribunal, is proposed by the Danish Institute of Arbitration unless the parties jointly propose a chairman before the expiry of the deadline for the respondent's answer.*

*Copenhagen has been agreed as the venue for arbitration.*

*It has furthermore been agreed that the case shall be governed by Danish law and that the language of the case will be Danish for both written and verbal negotiations."*

#### **14. APPLICABLE LAW**

An agreement between two parties which are both resident and have their business in Denmark does not normally give rise to major problems in relation to which law is to be applied to the interpretation of the agreement. The situation is different when one of the parties to the agreement is foreign. In such cases it is a good idea for the agreement to refer to the rules of a specific country which will be used/apply in connection with the interpretation of the terms etc. of the agreement. Danish law is referenced in this agreement.

Should a party wish for law other than Danish law to apply, advice must be sought from experts from the desired country with a view to identifying the consequences of such an action, including the validity of the agreement etc.