

INFORMATION SHEET

Assignment and licensing of intellectual property rights

Transactions that pertain at least in part to intellectual property rights often involve either an "assignment" or a "licence" of the intellectual property rights.

An assignment amounts to the outright conveyance, sale and transfer of the property interest and title in the specific intellectual property rights. Once intellectual property rights are assigned, the assignee (the equivalent of a purchaser) owns all the interest and title in the assigned intellectual property rights, subject to any restrictions that may be expressly provided for in the assignment agreement. However, the assignment may be subject to certain restrictions limiting the scope of intellectual property rights that are being transferred to the assignee.

In contrast to an assignment, a licence of intellectual property rights is a contractual permission given by the owner of the intellectual property rights (i.e., the licensor) to another party (i.e., the licensee) to use/exploit the intellectual property rights in a manner that the owner would otherwise have the legal right to prevent. In the case of a mere licence, there is no transfer of any property interest or title in the intellectual property rights from the licensor to the licensee.

Many transactions that pertain at least in part to intellectual property rights can be structured as either an assignment or a licence in relation to the intellectual property rights. In circumstances where an agreement relating to the transfer of and/or permission to use/exploit intellectual property rights includes an ongoing royalty or payment obligation, or other ongoing obligations on the part of the recipient of the intellectual property rights, it is typically advantageous for the owner of the property to grant a licence as opposed to an assignment. In the case of an assignment, the assignor typically loses the benefits associated with being an owner of the intellectual property rights. If the assignee were

to default on its payment obligations or its other continuing obligations to the original owner (assignor), it may be more difficult and/or costly (if not impossible) for the original owner to recover the right, title and interest in the intellectual property rights that were assigned.

Furthermore, once intellectual property rights have been assigned, the original owner typically no longer retains any property interest or title in the rights assigned. As a result, the original owner may be placed in a position where he or she is precluded by the assignee from any further use or exploitation of the assigned intellectual property rights — unless the assignee grants an appropriate licence back to the original owner to allow the original owner to use the assigned intellectual property. While the grant of such a licence-back will provide the original owner/assignor with some measure of protection to provide for a continuing entitlement to use the intellectual property rights it once owned, this option is usually not the most desirable and usually results in increased risks for the original owner. For example, it leaves control over the intellectual property rights in the hands of the assignee and can expose the assignor to the risk of having its licence terminated or otherwise losing the right to use the intellectual property rights it previously owned due to a breach of an obligation under the licence or some other eventuality such as the insolvency or bankruptcy of the assignee. Licensees can also have more difficulty enforcing their rights against third party infringers of those rights. It will also be appreciated that the combination of an assignment of the intellectual property rights from an assignor to an assignee, combined with the grant of a licence-back from the assignee to the assignor is a more complicated mechanism for transferring intellectual property rights than simply providing a licence from the owner of the property to the licensee.

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Licensing can provide an owner with a great deal of flexibility when dealing with third parties while at the same time maintaining overall ownership of the intellectual property rights.

In a licence, the permission granted by the owner to the licensee is conditional upon the licensee conforming to the terms of the licence. The scope of the licence may, and in fact should, be restricted by a number of provisions. Some of the more important licensing provisions include:

- identifying and describing the intellectual property being licensed;
- the type of permission being granted;
- the field of permitted use as well as the limitations on permitted use;
- territorial limitations;
- limitations or prohibitions on the right to sub-license the licensed property to others;
- minimum performance requirements pertaining to the volume of sales;
- minimum royalties;
- how royalties will be measured and paid; and
- control over the quality of the products made/sold using the intellectual property rights;
- the duration for which the permitted use will be in effect; and
- provisions dealing with allocation of risks between the licensor and licensees.

One of the most critical issues in any licence is the extent to which the licence is to extend to various parties, including the licensor, the licensee and third parties (i.e., what type of license is it?).

A licence may be exclusive, in which case the licence gives the licensee the exclusive right to exercise the particular licensed intellectual property as against all persons, including the licensor, a relationship similar to that of an assignment. Alternatively, a licence may be non-exclusive, where the licence consists of a mere permission to a licensee to use the intellectual property on a non-exclusive basis. Granting non-exclusive licences for the same intellectual property rights enables a licensor to provide multiple grants (i.e., there will be multiple licensees) in connection with the same intellectual property rights. This latter form of licensing is often preferred where the licensor determines that there is more to be gained by licensing the same intellectual property rights to many parties, who may then compete in the exploitation and commercialization of those intellectual property rights.

Another form of licence is the sole licence, which precludes the licensor from granting any interest in the intellectual property covered by the licence to any other party during the term for which the licence is granted. With a sole licence, however, the licensor is itself entitled to exercise the rights that are the subject of the licence, which is typically not the case with an exclusive licence. Some licences are characterized as exclusive licences when they in fact include provisions that have the same or a similar effect as a sole licence.

There are many other important provisions to be considered for any license but they are beyond the scope of this short summary.

The actual terms that are agreed on between the parties negotiating a licence agreement will depend upon many factors, including the relative bargaining strengths of the parties, the types of intellectual property being licensed and the business needs and strategies of the licensor and licensee.