

TRANSFER OF TECHNOLOGY (ToT) TRANSACTIONS - IP & PRACTICAL CONSIDERATIONS

Presentation to
Indian Defense & Aerospace Business Delegation to Israel

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L A W F I R M

Overview of Presentation

- 1. IP considerations in ToT transactions with Israeli companies**
- 2. Aspects of third party and OCS-funded technology**
 - In-licensed technology
 - Due diligence & IP considerations
 - Government funding, the OCS and the R&D Law
 - Not a discussion of MoD restrictions or export controls

Obvious limits in the material we can cover...

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IP Considerations in ToT Transactions

- Transactions based on the understanding that the Israeli and Indian partners will collaborate to enable indigenous manufacturing of products in India
- Tender process - Teaming & Collaboration Agreements
 - Critical to be clear about IP arrangements **early on**
- Such transactions, by definition, involve the transfer of technology & know-how
- From an IP perspective, ToT transactions involve an inherent **conflict**
 - Indian partner seeks to **maximize** access to IP & know-how
 - Israeli company seeks to **minimize** access to its IP / technology / know-how

Transfer vs. License of Know-how

1. Transfer of legal title

- Absolute
- Problems with valuation
- Potential legal restrictions
- Less common

2. Grant of license rights

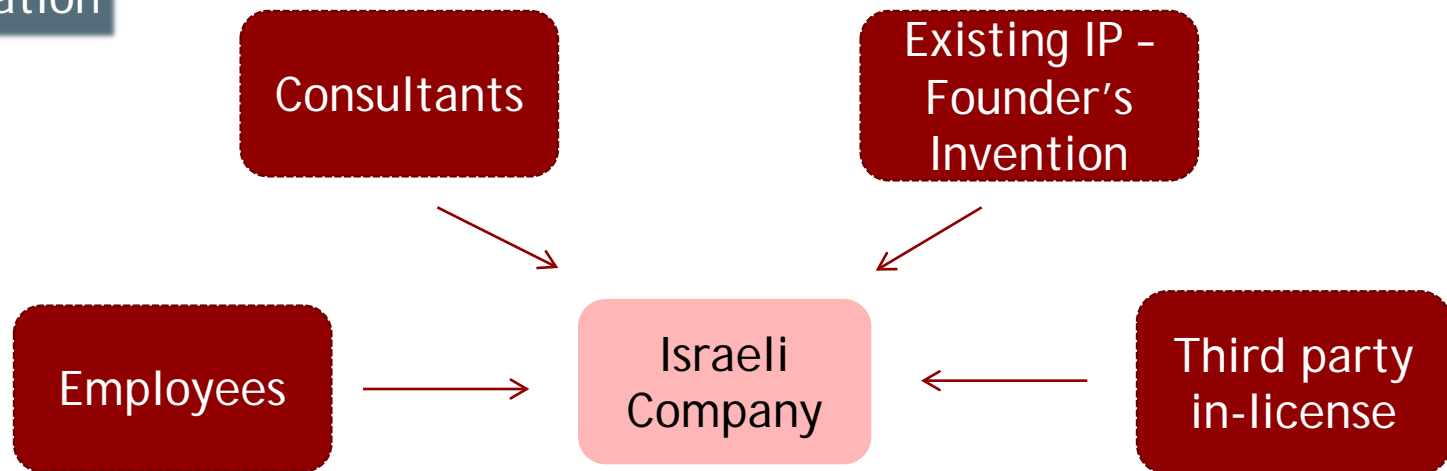
- Flexibility
- Scope, exclusivity, territory, type of product, etc.
- Patent management issues
- Generally “win-win”

IP Ownership & Chain of Title

- In either event (transfer or license)... important to determine who owns / has rights to the IP (*“you can only give what you have...”*)
- IP / technological know-how is **not always** created “in-house” - need to consider third party rights
- Requires careful due diligence and “Chain of Title” review to assess restrictions on transferability and licensing
- Address concerns with appropriate legal reps and warranties

IP - From Creation to Exploitation

Creation



Exploitation

Transfer / License

Indian Partner

“Black Box” Arrangements

Situation: Where there is a need to bridge the “tension” between maximal demands for access to IP & minimal desire to provide full access to IP

- Considerable technology transfer...
- But...reservation of **core IP** by Israeli company (e.g., chips/FPGA, source code, etc.) and supply arrangements
- May add **commercial complexities** – such as:
 - Ordering & delivery arrangements
 - Materials procurement
 - Inventory arrangements
 - Warranties

Escrow of Core Technology

- Escrow arrangements

- Often difficult to negotiate
- Demand for neutrality – law & jurisdiction
- Verification issues
- Triggers for release
- Cost considerations
- Useful tool to meet needs of **both** parties

Third Party Funding - Opportunities & Implications

- Many Israeli technology companies have received third party funding
- Essential to check during due diligence
- Specific terms & conditions of granting agencies
 - European Framework Programs
 - BIRD Foundation
 - Bi-national funding programs
 - Israeli Office of Chief Scientist

Office of Chief Scientist (“OCS”)

- Law for Encouragement of Research and Development in the Industry, 1984 (the “R&D Law”)
 - Magnet for technology companies but implications downstream
 - “Cheap” money with “expensive” strings attached

Beware:

- Restrictions on transfer of IP out of Israel
- Restrictions on transfer of manufacturing rights out of Israel
- Payment obligations to OCS

Transfer of Manufacturing Rights & OCS-supported Know-how Rights

- Approval of OCS – requires submission of application
- **Transfer of Manufacturing Rights**
 - Can manufacture up to 10% outside of Israel without approval (but notification required)
 - Manufacturing more entails increased royalty rates and increased royalty ceilings – to up to 300% of the original grant
- **Transfer of Know-how**
 - Applies to transfer of ownership of IP (e.g., patents, etc.) or of embodiment of know-how (e.g., source code)
 - More complex in case of licensing – lack of regulations

Transfer - Continued...

Payment Calculations

- **Transfer of IP** out of Israel – Must pay the **greater** of:
 - Amount of grants, plus interest
 - IP Sale Price multiplied by (amount of all OCS grants / total investment in the OCS program), and then depreciated
- **Sale of Company** out of Israel – Must pay the **greater** of:
 - Amount of grants, plus interest
 - Company Sale Price multiplied by (amount of all OCS grants / total R&D expenses of the company), and then depreciated

Cap Regulations

OCS - International Cooperation in R&D

- Programs to encourage Israel-India collaboration
- **Bilateral Programs**
 - India - Israel Initiative for Industrial R&D (i4RD)
 - Karnataka-Israel Industrial R&D Program (KIRD)
 - Partner matching for companies
- In Israel: Matimop (<http://www.matimop.org.il/>)
- In India: Global Innovation & Technology Alliance (GITA) (<http://www.gita.org.in/>)

OCS Programs - Continued...

- **Framework Programs (Examples)**

1. Global Enterprise Collaboration Program

- Large multinational corporations (US\$2B, R&D, global)
- Cooperation with Israeli companies in the multinational corporation's core business for a joint R&D

2. Project Centers - Multinational Companies

- Overall turnover of over US \$2.5 billion
- An industrial company in a traditional or mixed industry sector

Benefits:

- Access to Israeli technology and companies
- Funding
- Flexible IP arrangements

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Thank you!

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