

Presenting a live 90-minute webinar with interactive Q&A

Structuring Commercial Agreements for New Product and Service Deployment: Customer Collaboration Agreements and Pilot Programs

Crafting Terms and Conditions on Data Use and Ownership, IP Rights, Confidentiality, Incentives, Reporting, Termination and More

WEDNESDAY, APRIL 20, 2016

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Huu Nguyen, Partner, **Squire Patton Boggs**, New York

Stephen C. Mann, Senior Associate, **Baker Botts**, Dallas

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Structuring Market Testing Arrangements for New Products and Services

Pilot Program Joint Ventures, Beta-Testing and
Feedback

Huu Nguyen, Esq. &
Steve Mann, Esq.

About the speakers



Huu Nguyen, *Partner*

Squire Patton Boggs, New York, huu.nguyen@squirepb.com

Mr. Nguyen is a deal lawyer, focusing his practice on commercial and corporate transactions in the technology and media space. He counsels and assists clients with complex commercial arrangements, strategic relationships, financial regulatory matters, privacy and security matters, licensing, outsourcing, cyber law, intellectual property rights and rights of publicity and personality. He also helps his clients with accelerator and foundry formations and associated fund formations, mergers and acquisitions, corporate governance, corporate formation and other corporate matters.



Stephen C. Mann, *Senior Associate*

Baker Botts, Dallas, steve.mann@bakerbotts.com

Mr. Mann's practice principally focuses on the representation of technology and service industry companies and companies seeking the services of such companies, in M&As, technology, services and outsourcing transactions. Prior to entering law practice, Mr. Mann worked for a leading technology company as a systems architect, a global IT consulting practice manager and a program manager overseeing the integration of acquired companies.

What are market testing programs?

- Suppliers want to test a new product or service or new versions or features
- Suppliers markets to a core set of influencers to create buzz
- Customers can try new products or services for low or no cost
- Customers can try a new supplier at low risk or commitment

What are market testing programs?

- B2C or B2B product or service?
- Success Criteria
- User Base
- How to capture feedback
 - Quantitative - Automatic data gathering
 - Qualitative - Surveys
 - Would you buy this product?
 - Informal
 - You should add this feature
 - You should remove this feature

What are the different types of arrangements?

- A customer collaboration agreement
 - Example: Mindles, Inc. a company making mind reading software wants to create buzz and test its software for controlling home TVs thoughts. It asks 500 moms around the country to try this software.
- Pilot Program JVs
 - Example: Mindles, Inc. wants to test its mind reading software in TV sets created by TV, Inc. Mindles, Inc. and TV, Inc. want to partner up to do a test run and market test to 500 moms.

Challenges

- Customer Collaboration Agreements
 - Is it enforceable at all?
 - Cross jurisdiction
 - How do you prove breach?
 - Injunctive relief - How do you un-ring the bell?
 - What are the damages?
- JV Pilot Programs
 - Deadlock in decision making
 - Joint IP ownership

Legal Issues

- Involves many areas of law, but we will be focusing on:
 - Commercial, IP and corporate law for JVs
- We won't be focusing on:
 - Data privacy, cyberlaw, regulatory issues, consumer protection issues, etc.

Commercial

- Clearly Define Scope and Obligations of Supplier and Customer
 - Goods or services
 - Delivery, bailment and return of goods
- Dispute Resolution
 - Confidential
 - Limit Class Action Suits
- Warranties
- Limits of Liability
- Indemnification
- Insurance
- Confidentiality
- Termination

Customer Collaboration Agreements

- Beta Test and Feedback Agreements
- Similarities:
 - Both agreements requires customer participation
 - Supplier generally wants to keep the use of the service of product confidential
 - Generally, the supplier wants to keep all IP ownership
- Differences:
 - A beta test program could permit data gathering but no feedback from the customer
 - A feedback program could be for products that are not in “beta”
 - Challenges in enforcing terms of the agreements

Beta Test Agreements

- Typically limited use rights
 - Generally no production use
 - Often limited to artificial data (or with a complete disclaimer of data liability)
- Warranties and liability are limited
- Scope of feedback IP conveyance
- Indemnification
 - Necessary, given limited scope of use?
- Confidential

Feedback Agreements or Clauses

- Extremely service/product provider friendly
- Agency issues
 - Feedback can often come in conversations between relatively low-level employees (support engineers and sysadmins)
- Scope of coverage
 - What is "feedback," really?
 - What if feedback includes IP owned by the customer?
 - What if making use of the feedback depends upon IP owned by the customer?
- Treatment in comparison to actual customer-provided IP

Evaluation Scope

- Scope. This Agreement is not for the sell of goods or services and is for the Evaluation of the Product(s) [or Service(s)] during the term of the Agreement only. Evaluator [shall] [may] provide Feedback to Supplier subject to the terms of the Agreement.

Evaluating Goods

- Title to the Product(s). Supplier is the owner of and retains title to the Products(s) and accepts liability for payment of all federal, state, or local taxes now or hereinafter imposed by any governmental authority. Evaluator is under no obligation to purchase or take title to the Product(s) at any time during the Term of this Agreement or at the renewal or termination of this Agreement. [Evaluator shall be the bailee of such Product(s) for the benefit of the Parties].

Delivery & Return

- Risk of Loss and Damage. All delivery of Product(s) to Evaluator will be FOB destination; risk of loss or damage to the Product(s) is held by Supplier until the Product(s) has been delivered to and accepted by Evaluator.
- At the end of the term of the Agreement, Evaluator shall promptly deliver the Product(s) back to Evaluator FOB destination; risk of loss or damage to the Product(s) is held by Evaluator until the Product(s) has been delivered to and accepted by Supplier.
- Notwithstanding delivery of the Product(s) FOB destination, title to the Product(s) will remain in Supplier during the Term of this Agreement.

Evaluating Services

- Supplier shall provide to Evaluator the Services. Evaluator agrees to use the Services solely for its own internal analysis to determine the acceptability of the Services and whether Evaluator has an interest in obtaining, as appropriate, the Services from Supplier for use by Evaluator. Evaluator is prohibited from using the Services for any other purposes whatsoever in the absence of a signed definitive agreement therefor.

Intellectual Property

- Patents
 - Prior Art, First Sale, Joint Development Agreements, and Confidentiality
- Copyrights
- Trade Secret
- Data Use, Protection & Ownership
- Trademarks
- Publicity

Intellectual Property

Patents

35 U.S. Code § 102 - Conditions for patentability; novelty

(a) Novelty; Prior Art.—A person shall be entitled to a patent unless—

(1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention ...

Intellectual Property

Patents

35 U.S. Code § 102 - Conditions for patentability; novelty

(b) Exceptions.—

...

(2) Disclosures appearing in applications and patents.—A disclosure shall not be prior art to a claimed invention under subsection (a)(2) if—

...

(C) the subject matter disclosed and the claimed invention, not later than the effective filing date of the claimed invention, were owned by the same person or subject to an obligation of assignment to the same person.

...

Intellectual Property

Patents

35 U.S. Code § 102 - Conditions for patentability; novelty

...

(c) Common Ownership Under Joint Research Agreements.—Subject matter disclosed and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person in applying the provisions of subsection (b)(2)(C) if— ...

(1) the subject matter disclosed was developed and the claimed invention was made by, or on behalf of, 1 or more parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

(2) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(3) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement

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(2) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(3) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement

Joint Research Agreement & Confidentiality

- Joint Research Agreement. This Agreement shall be considered a “joint research agreement” by the Parties for the performance of experimental, developmental, or research work in the field of [_____].
- Confidentiality. All Confidential Information of Supplier, including the Feedback, all information about the Product(s) and the use of the Product(s), and all information provided by Supplier shall be owned solely and exclusively by Supplier. ... Evaluator shall protect the confidentiality of Supplier’s Confidential Information during the term of the Agreement and for [__] years thereafter, provided Evaluator shall protect the confidentiality of any trade secrets for so long as such Confidential Information remains a trade secret.

IP Provisions

- License. For the term of the Agreement, Supplier grants to Evaluator a limited, non-exclusive, revocable and non-transferable license, subject to the terms and conditions set forth in this Agreement, to use the Product for purposes of the Evaluation only.
- Assignment of Feedback. Evaluator hereby assigns all its rights, title and license to the Feedback about the Product(s) to Supplier.
- No Other Rights. Notwithstanding any other provision of this Agreement to the contrary, Evaluator shall not, and shall have no right to, prepare derivative works or derivative products of its own or for any third parties from the Product. Except as expressly set forth, no other rights are granted including any implied rights, and Evaluator shall have no rights with respect to the Product other than the rights expressly set forth in this Agreement.

JV Based Pilot Programs

- What if a supplier and a customer or partner wants to do a joint pilot program?
- What if a supplier and partner wants a structure in place that will permit them to commercialize products and services refined during a pilot?
- What if a supplier and partner has done a successful pilot and wants to launch a product or service together?
- What if supplier and partner want to share ownership in the IP developed from the pilot program?

JV Based Pilot Programs – Liability Issues

- Because the supplier and partner/customer will collaborate closely in a pilot program, share risks, and share costs there is a danger that the parties could be treated as partners
- Can Structure as a JV to shield liability
 - Scope of acceptable risk
 - Costs and complexity
 - What happens at end of pilot?

JV Based Pilot Programs - Example

- Mindles, Inc. wants to test its mind reading software in TV sets created by TV, Inc.
- The parties want to do a test run and market test but want to limit their liability.
- If pilot is a success, TV, Inc.:
 - wants to do a full commercial rollout
 - will commit to contributing more funds to the rollout
 - wants a share in the profits

JV Based Pilot Programs – Ownership & Capital

- Ownership usually equals control
- If 50/50 ownership, issues of deadlock
- If minority owner, then need to worry about minority protection
- Look to the commercial needs of the parties
- The goal of a pilot program is not to necessarily make money,
- BUT, the pilot program will obtain valuable assets, such as IP, information, customers and relationships
- Ownership and control will permit exploitation of those assets

JV Based Pilot Programs – Jointly Owned IP

- Will IP be transferred or licensed to JV?
- Will IP licenses be exclusive or non-exclusive? Can the licenses be terminated?
- Who owns the rights to any improvements?
- Who gets IP after dissolution of JV?
- Patents
 - Who pays for prosecution of patent apps?
 - Who gets rights to patent apps if the owner decides to abandon?
- Copyright
 - joint copyright owners have duty account to each other for any profits earned from licensing or use of the copyright.

JV Based Pilot Programs – Services from the Partners

- How will the parties and the JV interact?
- Simple:
 - A customer collaboration agreement sets forth main relationship between the parties and the JV
 - The JV can act as a middle man between supplier and customer for the pilot
- More complex: The JV could market test with third party customers, and the two parties provide services to the JV to assist in the market test
- Services that might be involved:
 - Promotion
 - Customer services
 - Supply and logistics
 - Data and feedback gathering

JV Based Pilot Programs – Exit

- Exit Criteria
 - Limited Term JV
 - Notice by either party
 - Breach
 - Deadlock
 - Change of control/bankruptcy of members
- Plan of Dissolution
 - Pre-agreed price or formula
 - Who will own what?

JV Based Pilot Programs – Success Criteria

- If the measurement of the evaluation shows success then:
 - Continue JV as a commercial entity
 - A party may have buy/sell/resell rights to Products or Services (at a discount)
 - A party may have rights to purchase equity in JV or the other party
 - Supplier have right to release of funds from partner or capital call

JV Based Pilot Programs – Dispute Resolution

- Good faith resolution between project managers of the members
- Escalation to executives/board of the members
- Third party mediation
- Third party arbitration
 - Rules of arbitration
 - Confidential, Binding, Final
 - Number of arbitrators
 - Seat of arbitration
- Not as applicable for a pure pilot program, but may include buyout rights lieu of arbitration

JV Based Pilot Programs - Example

- Mindles, Inc. and TV, Inc. to equally own 50% of MindTV, LLC.
- Mindles, Inc. contributes a license to IP and services, and both parties contribute money to the LLC
- Mindles, Inc. manages the LLC
- MindTV, LLC and TV, Inc. enter into Customer Collaboration Agreement
- All parties sign NDAs
- If pilot is a success, TV, Inc. wants to do a full rollout using the LLC and will commit to contributing more funds to the LLC in return for equity
- Profits/losses will be shared by the members of the LLC

Best Practices

- Supplier
 - Maximize "stickiness" of the program
 - Limit or eliminate liability during the low (or no)-revenue beta/pilot program
 - Ensure ability to use feedback received to enhance products with no liability or payments
 - Tie liability to revenue received

Best Practices

- Evaluator
 - Maximize flexibility, minimize obligations at end of program
 - Maximize pricing negotiating leverage at end of program
 - Be wary of using real data in cloud beta/pilot programs

Best Practices

- JV Partner
 - Limit your liability (insurance, corporate formalities, etc.)
 - Limit capital commitment
 - Lock in upside in IP and commercial potential