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ADVICE, STRATEGY AND KNOW-HOW ON DOING BUSINESS IN THE U.S.

# PEOPLE, PATENTS AND PARTNERS

## Protecting and Developing Your Company's Most Valuable Assets in the U.S.

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*Ask U$* is an information suite broken out into a series of easy to read Guides that address the key areas you need to consider when doing business in the world's most powerful market. Each individual guide has been written by professionals in their field who have provided advice and insight on the most crucial elements you need to keep in mind to create a compliant, effective and successful presence in the U.S.. In addition to this Guide, there are five other guides in the series that cover:

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- Establishing Your Business
- Tax and Finance
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# PEOPLE, PATENTS AND PARTNERS

## Protecting and Developing Your Company's Most Valuable Assets in the U.S.

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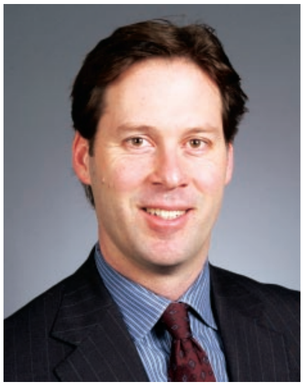

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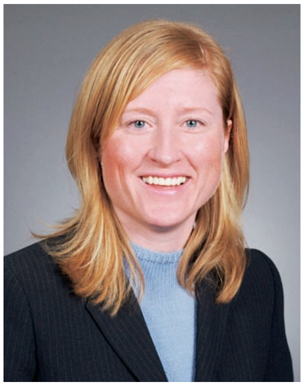

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*Choate, Hall & Stewart LLP, a 200-lawyer firm based in Boston, has maintained its position as one of North America's leading law firms for over a century. Choate's clients range from public and private technology companies and private equity and venture capital firms to Fortune 500 companies and leading financial institutions.*

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## INTRODUCTION

This guide is intended to assist Irish-based businesses expanding to the United States in the intricacies of developing and protecting their most important assets – their people and their intellectual property. Potential investors and acquirers, no matter where they are located, focus on three areas when evaluating a business enterprise: the people, the technology advantage, and the markets. Moreover, a company's intellectual property and personnel can differentiate its products and impact its market opportunity. As a result, identifying, motivating and retaining the right U.S. employees, and developing, protecting, and leveraging a company's intellectual property under U.S. laws is critical to the creation of value, which in turn results in return-on-investment for a company's founders and investors.

## LABOR AND HUMAN RESOURCE MATTERS

In some ways employees in the United States have fewer rights and protections than employees in Ireland, but in many ways they have more. Lack of awareness about employees' rights can result in costly mistakes: an estimated 8% of all civil lawsuits filed in U.S. federal court concern claims of employment discrimination. This guide provides a summary of some of the more basic employment laws as well as recommended practices.

### Recruiting and Hiring

Companies starting their operations in the United States often ask how they should go about finding employees.

There are numerous ways, including the following:

- Contact people you have worked with before to see if they can recommend anyone in the U.S. who is looking for a job or who might be interested in changing employers.
- Use your industry connections and network. Attend trade shows and seminars. Don't be shy about asking people how they have recruited their best employees and whether they know of anyone seeking a specific position you are looking to fill.
- Online job sites such as Monster.com and CareerBuilder.com are the fastest growing method for employer-employee matchmaking. Such sites contain job postings, want ads, and resumés of prospective employees. These are a great source, particularly for technical personnel.
- Employment agencies can find you administrative/non-executive employees for a fee. Their primary advantage is the professional screening services they provide, including background and reference checks.
- For senior executives, investors and attorneys can be an ideal source for find appropriate candidates in the U.S.. They will be motivated to help you find and recruit the best management team possible.
- Alternatively, you can use an executive search firm, a.k.a. a headhunter for more senior level positions.

  After receiving your hiring criteria, the headhunter will do the legwork of contacting qualified candidates, conducting preliminary interviews, and completing background and reference checks.
- Colleges and universities have recruiting offices where you can post your job openings for both entry-level positions and student internships.
- Temporary employment agencies can provide you with many different types of employees, including administrative personnel, salespersons, technicians, engineers, and programmers. A benefit to using a temp agency is that you can examine an individual's performance before deciding whether to offer a permanent position.

*Lack of awareness about employees' rights can result in costly mistakes: an estimated 8% of all civil lawsuits filed in U.S. federal court concern claims of employment discrimination.*

The fee charged for an employment agency or headhunter to find a permanent employee will vary depending on the level of the employee and demographics. Market demand may also be a factor.

**A typical fee will be one year's cash compensation for a senior-level employee (a position paying between $150,000 and $200,000), 25-30% of the employee's first year base salary for a mid-level employee (a position paying between $100,000 - $150,000), or 20-25% of the employee's first year base salary for a position paying less than $100,000.**

The fee can be structured in one of several ways:

- Retainer: You pay the search firm the fee up front. If you do not hire through the firm, you receive no refund.
- Modified retainer: You pay one-third of the fee up front. You pay the remaining two-thirds only if and when you hire a candidate located by the firm.
- Contingency: You pay the entire fee only if and when you hire a candidate located by the firm. Most firms will search only for junior and mid-level employees on a pure contingency basis.

Managers who interview job applicants must be aware of all applicable anti-discrimination laws, both federal and state. Certain questions may not be asked either by an interviewer or in a job application.

For example:

- Asking how many sick days the person took at his/her last job can result in a disability discrimination lawsuit;
- Asking someone whether his/her name is Irish (or Polish, Iranian, etc.) can result in a claim of national origin discrimination;
- Using an application form that asks for the person's date of birth can lead to a claim of age discrimination;
- Asking a job applicant to take a polygraph test is prohibited.

It is important to train your managers on what they may and may not ask, and to have your job application form reviewed by counsel.

It is also strongly recommended that you confirm education and work experience claims made by job applicants, as well as their references. An estimated 25% of U.S. resumés contain false information. More thorough types of background checks, such as for credit reports or criminal records, are usually not necessary. Each state has its own rules about what sorts of information can be investigated without the applicant's signed consent.

New employees must present proof that they are U.S. citizens or are otherwise authorized to work in the U.S.

Though not required, it is a good practice to require applicants to sign an acknowledgement that they will not violate any obligations owed to former employers (e.g., a non-compete with a former employer) by coming to work for your company.

*Whether someone is an independent contractor or an employee is a fact-specific question, often with an answer that is not clear-cut.*

**Employees are different from independent contractors, also known as consultants. Independent contractors usually work for other companies while also working for yours, work with little to no supervision, and decide their own work hours. Taxes are taken out of paychecks to employees, but not independent contractors. Usually independent contractors are ineligible for company benefits. Whether someone is an independent contractor or an employee is a fact-specific question, often with an answer that is not clear-cut. Sometimes individuals ask to be characterized as consultants, primarily because of the tax benefit. You may have to insist that they be characterized as employees, however, if that is what the facts show. Review close-cut cases with your counsel to make sure you are not, for example, denying worker's compensation insurance or overtime pay to someone because you mistakenly believe the individual is an independent contractor.**

### Offer Letters and Employment Agreements

Most employees in the U.S. are employed "at will." This means they may be terminated at any time for any reason, with or without notice or cause. There are some important exceptions, such as employees who have written or oral contracts that permit termination only for "cause," and laws that prohibit terminating someone for a discriminatory reason. In addition, "wrongful termination" is actionable in some states for certain limited reasons, such as firing someone for serving jury duty.

*Most employees in the U.S. are employed "at will." This means they may be terminated at any time for any reason, with or without notice or cause.*

**For most of your employees you will not need to prepare an employment contract. It is much more common to send a short offer letter containing basic information about the job and compensation and stating that the relationship will be "at will."**

Managers should be trained on how not to create a contract inadvertently – e.g., by promising an employee that he or she will be employed for a specific period of time, or inadvertently give severance or equity without vesting. Some employee handbooks have also been held to create a contract inadvertently. Careful drafting and review by legal counsel can avoid this predicament.

Reserve employment contracts for your top executives. Expect to have the most negotiation over compensation amount and the following three issues: (1) whether the executive will be awarded equity and, if so, the vesting terms; (2) the amount of any severance pay and what will trigger that obligation; and (3) the duration and other terms of any post-employment non-competition or non-solicitation restriction.

### Protection of Intellectual Property and Confidential Information; Non-Competes

The laws of most states require employees to maintain the confidentiality of their employers' confidential information. Nevertheless, employers commonly seek additional protection by requiring their employees to sign **non-disclosure agreements** (NDAs). NDAs often contain a provision making clear that an employee's inventions relating to the company's business belong to the company, even if not made on company time or with company equipment (an "assignment of inventions" provision). We recommend you ask your employees to sign an NDA with an assignment-of-inventions agreement when they join the company.

If any employees will be in a position to hurt the company by joining a competitor, you can have them sign a **non-competition agreement**. This will prohibit them from competing against your company within a certain geographic area for some period of time after they leave. Often a non-competition agreement will contain a provision also prohibiting the person from soliciting your employees and/or your customers after he or she leaves the company, usually for the same period of time. Requirements for non-competes to be valid and enforceable vary widely from state to state. California generally refuses to enforce them at all. Have your counsel review any NDA or non-compete before you ask employees to sign it.

### Compensation and Benefits

The typical components of a compensation package for a management-level employee are: salary, bonus (optional; usually contingent on achievement of certain milestones by the manager and/or the company), commissions if the person is in sales, an equity interest in the company (usually unvested stock options or restricted shares that vest over time), and in some cases, severance pay. The amount of the severance and whether it will be triggered upon a change of control should be determined by what competitors in the market are offering. Federal and state taxes must be deducted from each employee's paycheck.

Generally the only benefits that are required in the U.S. are worker's compensation insurance, unemployment insurance, and Social Security contributions made through payroll deductions. In addition, under federal law, companies with 50 or more employees in any one location must offer 12 weeks of unpaid family and medical leave per year to eligible employees. Some states require additional unpaid leave, such as maternity leave. Employees in the armed services have certain additional rights to unpaid military leaves of absence and re-employment.

Although the following benefits are not mandatory, they are often provided by companies seeking to offer competitive packages: paid vacation (typically two to four weeks per year); paid sick days; paid holidays; bereavement leave; health and dental insurance (the premiums are usually partly paid by the company); life insurance and short-term and/or long-term disability insurance (the premiums are often paid in full by the company); 401(k) retirement plan (sometimes an employer will match employees' contributions up to a certain amount, although this practice has become less common in many industries); cafeteria plan in which employees can pay out-of-pocket healthcare expenses and/or child care expenses with pre-tax dollars; employee assistance program and tuition assistance. Relocation and car allowances are handled on a case-by-case basis for executives, but in any event should be capped.

### Wage and Hour Laws

**Unless employees are exempt from federal and state wage and hour laws, they must be paid time and a half for all hours worked over forty in a week.** Some states provide even greater protection (e.g., employees in California must be paid time and a half for all hours worked over eight in a day.)

Non-exempt employees include all non-computer employees who are paid by the hour, and all employees who earn less than $455/week ($23,660/year). Employees who earn at least $100,000 a year are almost always exempt. Exempt employees also include salaried workers who satisfy certain tests. Employers should consult with experienced labor counsel in order to determine whether a particular employee is obligated to receive over-time pay.

### Handbooks, Policies, Records, and Postings

Small companies do not need employee handbooks. As your company grows, you may decide one would be useful. The purpose is to educate employees about the areas where they have rights and benefits (e.g., vacation time, leave entitlement under the federal Family and Medical Leave Act), and the areas where their rights are reduced (e.g., no expectation of privacy in e-mails, drug testing may be conducted in certain circumstances, avoiding conflicts of interest and complying with the company's code of ethics).

Some employee handbooks/personnel manuals have been held to create contracts. To try to avoid this, make sure the first page contains a highly visible disclaimer stating that the handbook does not create a contract and that all employees may be terminated at will. If you have a progressive discipline policy, the policy should state that the company has discretion to skip any or all of the discipline steps.

Whether or not you choose to summarize them in a handbook, you should adopt certain personnel policies.

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Some will be required by law (e.g., a policy explaining the Family Medical and Leave Act if your company is large enough for the law to apply). Most are simply recommended (e.g., policies against discrimination and harassment, policies explaining that the company may read all employees' e-mails and/or review all Internet sites they have accessed).

Posters telling employees their rights under certain federal and state laws must be posted in a conspicuous place – often the Human Resources area or the lunch room. These can be obtained from the federal and state government departments of labor.

Personnel files should be kept in a centralized, confidential location; only Human Resources staff and others with a specific business need should be able to access them. Laws require that different employment records (e.g., job applications, I-9 forms verifying an individual's right to work in the U.S., payroll records, evaluations, etc.) be retained for different lengths of time. Employee medical records must be kept separate from regular personnel files and treated even more confidentially. Some states have laws allowing employees and ex-employees to access their personnel files.

**It is critical for managers to document performance issues and to complete regular (typically annual) performance evaluations with honest feedback. Employees cannot be expected to improve their performance unless they understand what management views as deficient. In addition, creating a paper trail of an employee's poor performance and/or misconduct can be the difference between winning and losing a discrimination lawsuit filed by an employee terminated for either reason.**

### Discrimination and Harassment

Under federal law, an employer may not discriminate against or harass job applicants or employees on the basis of their race, color, national origin, gender, pregnancy, age (if 40 or older), mental or physical disability, religion, or veteran status. Some states also prohibit discrimination on additional grounds, such as sexual orientation and/or marital status. Retaliating against someone for reporting discrimination or harassment, or for participating in a discrimination or harassment investigation, is also unlawful.

**Discrimination** is defined as treating someone differently with regard to pay, promotions, terminations, or any other terms or conditions of employment, based on a protected characteristic.

**Harassment** is defined as engaging in unwelcome conduct (physical or verbal) on the basis of a protected characteristic, where the conduct is so severe or pervasive that it interferes with the person's ability to do his/her job. "Quid pro quo" sexual harassment, where submission to or rejection of sexual advances, requests, or conduct is used as a basis for an employment decision, is also prohibited.

If a disabled employee needs a reasonable accommodation in order to perform the essential functions of his/her job, laws against disability discrimination require the employer to provide it unless doing so would impose an undue burden. Determining whether a reasonable accommodation will work in a particular situation and, if so, what kind, requires an interactive dialog between employee and employer. Providing religious accommodations is also required.

Employers are well advised to have discrimination/harassment policies, conduct anti-harassment training, and have a published reporting mechanism so that employees who believe they are being discriminated or retaliated against or harassed have someone inside the company to whom they can complain. Once a complaint is made, the employer is required to investigate – even if the employee asks that the company not do so – and take prompt remedial action if it confirms that unlawful conduct has occurred.

### Unions

Approximately eight percent of U.S. employees in private-sector employment belong to a union. Unionized employers are concentrated in certain industries. Specialized rules apply to managing, compensating, and terminating unionized employees. Management should be trained on what they may and may not do when employees try to organize a union.

*Once a complaint of discrimination or harassment is made, the employer is required to investigate – even if the employee asks that the company not do so.*

It is important to remember that federal labor law prohibits an employer from terminating or otherwise retaliating against employees – even non-union employees – for engaging in concerted activity for purposes of collective bargaining or other mutual aid or protection. For example, if an employee complains to co-workers about the salary levels paid by the company, the company may not discipline or terminate the employee for this conduct regardless of whether he/she is in a union.

### Terminations and Reductions in Force

Making mistakes in terminating employees is the most common route to a lawsuit for discrimination or wrongful termination. Before you terminate an employee:

- If for poor performance, make sure the employee has been given documented warnings and a chance to improve;
- If for misconduct, make sure the employee has been allowed to explain his/her side of the story and that HR has conducted an investigation;
- If you "eliminate the position" of an employee who is protected by anti-discrimination laws, recognize that replacing him or her could subject the company to a discrimination lawsuit;
- Make sure that HR and all of the employee's managers know about and agree on the planned termination. HR should ensure that performance problems have been documented, that a misconduct allegation has been investigated, or that a "position elimination" actually meets that definition;
- Conduct the termination meeting in a private location. Keep it short. Tell the employee the truth about why he/she is being let go. If possible, have another manager with you in the room. Treat the employee with respect. Do not escort him or her off the premises unless absolutely necessary. Afterward, write a short memo to the file documenting the discussion;
- If you have any concern that the employee might sue, offer him or her separation pay in exchange for a signed release of claims. Have counsel review the separation agreement and release first to ensure that all claims are covered and the release will be enforceable.

Before you implement a reduction in force, HR should carefully review how the persons were selected in order to confirm that the selected group does not contain a disproportionate number of employees in any protected category.

If you have 100 or more employees, contact counsel before you conduct a mass layoff or close a plant. You may be required under the federal "WARN" Act to give employees 60 days advance notice.

With employees who voluntarily resign, we recommend conducting exit interviews to find out why the person is leaving and what the company can do better.

### Best Practices

Here are just a few of the many best practices in the employment area:

- Hire a knowledgeable HR manager, and make sure he/she conducts regular audits of the company's employment practices together with assistance from the company's employment lawyer;
- Always check resumé claims and references;
- Draft offer letters carefully;
- Require your employees to sign NDAs and non-competes;
- Train your managers on how to hire, discipline, and fire. Conduct anti-discrimination/harassment training for all employees, not just managers. Implement and follow a "zero tolerance" policy for discrimination/harassment, and include a mechanism so that an employee knows how to file an internal complaint. Investigate any and all complaints and take prompt, remedial action where warranted;
- Before you fire an employee, contact counsel. When you terminate an employee, offer separation pay in exchange for a release of claims;
- General commercial liability policies do not cover employment claims. If a company wants coverage, it must buy separate employment practices liability insurance (EPLI). Most employers do not buy EPLI, but it is an option.

## PROTECTING AND LEVERAGING YOUR INTELLECTUAL PROPERTY

### Protecting Your IP Assets in the United States: Understand the Basics

There are four major types of intellectual property protection available in the United States: (i) patents, (ii) copyrights, (iii) trade secrets, and (iv) trademarks. These different types overlap and, at times, a company can protect its intellectual property under more than one of the types described below. This discussion is intended to serve as only an introduction and should not be considered legal advice. A company would be well-advised to consult with an attorney to obtain the necessary further information regarding protecting its intellectual property.

### Patents.

A ***patent*** is a legal monopoly granted by the U.S. federal government that allows the holder to stop others, in the United States, from making, using, offering for sale, selling, or importing the item covered by the patent for the duration of the patent. In general, patents last for 20 years from their date of filing, although design patents last for 14 years from their date of issuance.

U.S. patent protection is available only through U.S. federal patent registration with the United States Patent and Trademark Office (the "U.S. PTO"). In order to obtain a patent from the U.S. PTO, the invention must be useful (i.e., must have at least a minimal use), novel (i.e., not already described or patented elsewhere, or known, used or available to others in the U.S.), and non-obvious (a subjective test, with a substantial difference in this area between U.S. and European law, and input from experienced patent counsel is advisable).

In exchange for the issuance of a patent, inventors must disclose their invention in a patent filing, which is accessible to the general public. An option for early stage companies is a U.S. provisional patent application which may result in lower up-front cost.

*An Irish-based company that is expanding to the United States should note that there are substantial differences between European and U.S. law with regard to patents.*

An Irish-based company that is expanding to the United States should note that there are substantial differences between European and U.S. law with regard to patents. For instance, certain inventions patentable in the United States may not be patentable in Ireland or the European Union or, if they are patentable, may be patentable only with additional limitations. One such example is software algorithms, which ***are*** patentable in the United States, unlike in most other geographic areas, where they generally must be claimed in connection with hardware in order to be patentable. In addition, in the United States, there is a one-year grace period after public disclosure, sale or offer for sale of the invention during which an application can be filed without loss of rights.

A company should consider taking a number of steps in order to avail itself fully of the protections under U.S. law for patentable inventions, including:

- Establish a patent committee to evaluate periodically new ideas and decide and implement, in consultation with experienced patent counsel, the company's overall patent strategy;
- Require all employees to execute assignment of invention agreements that provide that any invention made by the employee during the course of employment will be assigned to the company;
- In order to put the public on notice of its rights, a company should use "patent pending" once a patent application has been filed and "patent" with the patent number once a patent has been issued;
- Implement a patent strategy that is multi-jurisdictional in order to protect current and future markets – think globally from the start.

### Copyrights.

A ***copyright*** gives protection for an original work of creative authorship that is "fixed in any tangible medium of expression." A valid copyright restricts the ability of another party to make or distribute copies (or any portion) of the work, to create derivative works based on the work or to display publicly or perform the work. A copyright, however, does not protect the underlying ideas expressed in the work. Computer programs, web sites, and literary and musical works are examples of works that may be the subject of copyright protection.

A copyright in a work belongs to the author and vests as soon as the work is "fixed" in any "tangible medium" of expression. If the work is made by an employee within the scope of employment, it is considered work-for-hire and the employer is the author. Generally, however, works created by independent contractors will not be considered works-for-hire, and a company should ensure that its consulting and contracting agreements contain a provision providing for the assignment of such authorships. Copyright protection generally lasts for the life of the author plus 70 years, or, in the case of a work-for-hire, the earlier of 95 years from publication or 120 years from creation.

Although the standard for obtaining a copyright is fairly uniform throughout the industrialized world, in the United States there are additional requirements for enforcing a copyright. Accordingly, a company should consider taking certain measures for protecting in the United States its original works of authorship, including:

- Registering its copyrights with the U.S. Copyright Office. Although registration is not required for copyright protection to attach, it is a simple and inexpensive procedure and is required to enforce the copyright and recover statutory damages and attorney fees from an infringer;
- Using a legend in connection with its works of authorship. Although this also is no longer required under U.S. law, such notices alert others to the owner's copyright claim. Valid notice includes (a) the word "Copyright" or "Copr." or the copyright symbol "©", (b) the year of first publication, and (c) the name of the copyright owner. The notice should appear in a location that is reasonably designed to give notice to the viewer, such as on the title page of a book, on the label or packaging of a product, and/or the first screen of a website.

### Trademarks.

A ***trademark*** is an asset that distinguishes goods or services of one party from those of another. A trademark can be in the form of words, logos, sounds or symbols. Trademark law gives the owner of a trademark the exclusive right to use the trademark on the specified goods in order to protect the company's reputation, goodwill and advertising investment and generally gives the mark owner the right to exclude others from using "confusingly similar" marks in trade or commerce.

Trademarks are protectable under U.S. federal, state, and common law and can be registered with both state and federal authorities in the United States. Unlike in many other jurisdictions, registration is not required in the United States. U.S. federal registration, however, does serve as evidence of the owner's exclusive rights and provides significant advantages in pursuing infringers. U.S. federal registration remains in force for ten years and can be renewed for additional ten-year periods as long as the mark continues to be used in commerce.

There are many rules in the United States relating to proper trademark use, and a company should consult with experienced trademark counsel for guidance in this area. Most importantly, a company should take the following steps:

- When registered trademarks are used in any printed material, they should be followed by "®" at least the first time the mark is used in the material; and
- When unregistered trademarks are used in written material, they should be followed by "™" at least the first time the mark is used in the material.

### Trade Secrets.

A ***trade secret*** is information that is not generally known in the marketplace that has competitive value and which is reasonably treated by the owner as a secret. Trade secrets encompass every kind of information that a company would like to keep confidential, including technical data, financial, market and business information. The rights relating to trade secrets exist as long as the information is kept confidential. Trade secrets, however, do not preclude reverse engineering or independent development by others.

The criteria used in the United States for determining whether information constitutes a trade secret involves highly-subjective tests, and a company should be sure to seek appropriate guidance in this area. Furthermore, there is no formal means, such as registration, for protecting trade secrets. Nevertheless, well-advised companies in the United States typically employ measures to protect their trade secrets, including the following:

- Require that appropriate personnel execute NDAs in which employees acknowledge that they will become aware of the company's trade secrets and agree to keep such information confidential and use such information only in the performance of work for the company;
- Limit access to proprietary data to those with a "need-to-know";
- Choose your partners carefully;
- Develop a favorable business-to-business NDA;
- Use care in licensing all intellectual property in and out of your company;
- Treat trade secrets received from others with due care, and accept such information only in limited circumstances;
- Provide notice of the confidential nature of any data on print-outs or files, such as "Highly Confidential — Proprietary Information of XYZ, Ltd."

*A strategic alliance is a corporate relationship, and not just a contract, that helps each partner leverage its resources in order to achieve its business goals.*

### Leveraging Your IP Assets in the United States: Develop Strategic Alliances to Maximize Sales and Distribution Arrangements

Companies based in Ireland that have developed their core intellectual property and achieved a level of commercial success at home often turn their focus to expanding to the United States in order to maximize the value of their franchise. These companies confront a number of common challenges in expanding to the United States. These challenges include:

- Implementing an effective expansion strategy on a limited budget;
- Having limited credibility and marketing clout as a new entrant to the market;
- The time required to establish a sales force, service organization, and distribution network;
- The need for further capital.

One method by which Irish-based companies have overcome these challenges and expanded their operations to the United States successfully is through the use of strategic alliances relating to their products and intellectual property. A strategic alliance is a corporate relationship, and not just a contract, that helps each partner leverage its resources in order to achieve its business goals. These alliances can enable a company to maximize the value of its intellectual property, gain access to technology, expand its market presence, access sales channels, and drive revenue.

There is no typical combination of companies that enter into strategic alliances. Rather, these relationships are determined by the individual needs of the partners. In addition, there are a variety of types of strategic alliances in the United States relating to the deployment of intellectual property, including distribution agreements, value-added reseller agreements (VARs), original equipment manufacturing agreements (OEMs), co-marketing agreements, joint-development agreements, teaming agreements, and manufacturing agreements.

Nevertheless, there are a number of commonalities among the various types of relationships. This section is intended to provide a brief introduction to (i) the steps a company should take to increase the likelihood of establishing a successful strategic alliance with a U.S.-based partner, and (ii) the key terms and considerations of such relationships.

### Using Strategic Alliances Successfully.

As with any business relationship, a company needs to take a number of steps in order to ensure that its strategic alliances are positioned for success:

a. Assess your value. First and foremost, an Irish-based company contemplating the use of strategic alliances with U.S.-based entities should have a clear understanding of its value to a potential partner. In this analysis, it is important to note that, because financial statements are based on the cost model, they provide a poor indication of the true value of intellectual property. A company should instead undertake an honest assessment of its strengths and weaknesses, as well as the broader value it presents to prospective partners, and conduct a survey of the competitive landscape.

b. Cultivate multiple partners. Similar to preparing a company for a sale, the more companies interested in establishing a strategic alliance, the more leverage a company has in negotiating the terms and conditions of the relationship. A company intending to expand their operations to the United States should identify the full range of potential partners and try to establish meaningful dialogue with as many of those companies as possible.

c. Communicate clear objectives. Clearly defining the goals and scope of the arrangement enables a company to determine whether the alliance is successful and avoids confusion regarding the roles of each party in the relationship.

d. Know your partner. An Irish-based company may be at a disadvantage when initially contemplating a strategic alliance with a U.S.-based enterprise because it is new to the geographic market, may not have a strong understanding of the various companies in the marketplace, and may not have a pre-existing relationship with execution champions within prospective partners. Consequently, a company expanding into the United States needs to make the extra effort to conduct due diligence on its potential partner. This includes a strong understanding of their market reputation, financial position, near and long-term strategy, key personnel, and sales and distribution model.

e. Actively manage the relationship. You should be sure to frequently assess the progress and benefits of the alliance and engagement in co-management of the sales channel. This should entail formal periodic reviews intended to assess performance in light of the clearly-communicated objectives. Furthermore, you should develop several strong contacts within your partner's organization and create contractual incentives to ensure that your partner allocates appropriate resources to the alliance.

f. Subdivide the market. Create as many markets as possible in order to establish the maximum amount of revenue sources. Rather than viewing the United States as a single, integrated market, you should subdivide the region into numerous smaller markets. The number of markets that can be created are limited only by your ability to conceptualize sources of revenue.

g. Obtain up-front commitments from your partner. Be sure that the alliance you negotiate requires immediate action items on the part of your partner, including up-front funding and amounts required to be spent on marketing. This is necessary in order to ensure that the appropriate amount of attention and resources is applied to upholding the relationship and working towards achieving the objectives.

h. Be strategic to your partner, but maintain your own independence. Ultimately, you want the relationship to be valuable to your partner. Ideally, the value goes beyond a resale commission and drives the partner's broader business interests. However, it is important to preserve your independence from your strategic partner and avoid being viewed as a "captured company." This can best be done by strategically utilizing multiple partners across different industries, geographies, and fields, and sometimes even by creating competition among partners licensed in the same area.

i. Evaluate the impact of the relationship on your exit strategy. Every business relationship must be evaluated – both on the macro and the micro level – for its potential impact on your company's likely exit strategy. Creating an alliance with one entity might preclude that entity's competitors from contemplating acquiring your company. Moreover, the structure of the arrangement can serve as an impediment to a liquidity event, and care must be used in connection with contractual provisions relating to termination, assignment, confidentiality, and royalties.

In short, the use of strategic alliances can accelerate the establishment of operations in the United States. These arrangements are important and must be structured carefully and actively managed in order to achieve the maximum benefits and preserve your exit strategies.

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### Introduction to Key Terms and Considerations for Strategic Alliances.

Although strategic alliances take a variety of forms, the actual agreement can be expected to contain certain common terms and conditions, regardless of the structure of the relationship or the nature of the underlying technology. The following is intended to provide a brief overview of the terms and conditions that frequently arise in the negotiations of strategic alliances. This discussion, however, should not be considered legal advice, and a company would be well-served to consult with an experienced attorney when negotiating such a relationship.

a. Scope of license grant. The license grant provision serves to identify the purpose for which the licensed technology may be used. The scope typically includes the subject matter, the rights granted to the technology, and the field of use, both functional and geographical. It is often in the interest of the owner of the technology to limit the scope of this provision as much as possible.

b. Payment provisions. The two most common ways in the United States to structure the payment for a license is the lump sum payment and royalty payments. A lump sum payment provides for the payment – either upfront or extended over the course of the term of the license – of a fee in an amount negotiated in advance. In contrast, royalties provide for a payment in an amount based on the use of the licensed technology. When the royalty methodology is used, a number of related issues must also be addressed, such as the base off of which royalties are calculated (e.g., gross revenue or net revenue).

c. Exclusivity. An exclusivity provision prohibits the licensor from licensing the technology to other parties.

Because this provision limits the licensor's future business options, the licensor should agree to such a provision in only very limited circumstances. Furthermore, when a licensor does accept this provision, it should place a number of conditions on the exclusivity condition. By imposing such limitations, the licensor might be able to agree to an exclusivity provision that is not, in reality, just an outright sale of the technology.

d. Improvements and Enhancements. A well-crafted agreement should specify who owns, and who has the right to use, any improvements made to the technology that is the subject of the license agreement. A licensor should attempt to acquire exclusive rights in the improvements made by the licensee to the technology. License agreements also often specify when the licensor must provide to the licensee any improvements it makes to the technology.

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e. Term and termination. Although frequently mischaracterized as "boilerplate," when and how an agreement terminates is one of the most important provisions contained in a strategic alliance. A carefully-negotiated agreement will specify the (i) times at which and circumstances under which it may be terminated, (ii) the consequences of termination, and (iii) the obligations of the parties following termination. In most instances, a shorter term agreement benefits the owner of the technology as it reduces the impact of miscalculating the value of the technology and the risk of relying on the strategic partner's exploitation efforts. Moreover, a licensor will not want to have the agreement terminate upon a change of control, as this minimizes the value of the relationship to a potential acquirer.

f. Assignment. The assignment provision allows or prohibits one or more parties to assign rights and obligations under the agreements to another party. In general, as the owner of the technology, an Irish-based company should seek to prohibit the licensee or strategic partner from being able to assign any rights or obligations contained in the agreement.

g. Limitations of Liability and Remedy. This provision serves to cap a company's liability, provide a defined remedy for breach, and/or exclude special or consequential damages for some or all claims. In the United States, it is fairly common practice to limit liability for special, incidental and consequential damages (i.e., damages that are not a direct result of a breach of the agreement, but were reasonably foreseeable). In addition, as the licensor of the technology, the Irish-based company should strive to limit the amount of damages for which it is liable to amounts previously paid to it during a portion of the relationship although there are certain standard negotiated exceptions to this cap. It is also common in the United States for a licensor to limit the remedy for breach of the agreement to either (i) in the case of defective products, repair, replacement or refund, or (ii) in the case of deficiencies in the licensed technology, the use of best efforts to fix the deficiencies.

h. Protection of Intellectual Property. Both parties to a strategic alliance have a strong interest in ensuring that appropriate steps are taken to protect the intellectual property. As a result, companies can expect such agreements to (i) require the appropriate party to ensure that notices and legends are used, (ii) require one of the parties to make the necessary filings for protection in each jurisdiction where the technology is used, and (iii) require one or both parties to take action against infringers. Confidentiality and limited-use obligations are essential.

i. Warranties. Warranties are assurances made by a party as to the performance and/or status of a licensed product or technology. In the United States, there are two types of warranties commonly contained in licenses or strategic alliances. The first type is a **warranty against infringement**, which, in simple terms, is a representation by the licensor that the licensor has the right to grant the licenses granted under the agreement.

The second type of warranty commonly contained in U.S. licenses or strategic alliances is a **warranty of performance**. In short, a warranty of performance is a guarantee that the technology will satisfy certain criteria relating to its usefulness and operability.

In the United States, a complex body of law surrounds performance warranties, and certain related warranties could be imposed in the absence of a specific statement to the contrary. Accordingly, a licensor should review this area with experienced counsel.

## SUMMARY

For technology companies, once a market opportunity has been identified, the way to building true value is twofold: (a) identifying, hiring, and retaining high-quality employees, and (b) developing, protecting, and maximizing the use of innovative intellectual property. Because employees in the United States are "moveable assets," an Irish-based company expanding its operations to the United States must build a culture and procedures that serve to attract, retain and motivate skilled employees that will enable the company to execute its expansion plan. In addition, in order to leverage a company's limited resources, it is important for the company to develop and commit to an effective intellectual property strategy and to partner well. Ultimately, successful expansion to the United States is about execution of the details relating to the company's two most important assets – its people and its intellectual property. By executing well in these areas, a company increases the chances of building real value and creating a return for its founders and investors.

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