

# **Guidebook of IP/Technology Transfer**

# **Track 1**

## **Entry-level Tech Transfer Professional**

### **Topic 1.11.4**

## **Option Agreements**

# Option Agreements

- What are they? When are they needed by the TTO/TTP?
- What role do they play in the IP management/technology transfer process?
- What are the elements of a standard Option Agreement?

# Option Agreements

## What are they? When are they needed?

- Option Agreements are contracts between an IP owner and another party for the purpose of providing a limited level of rights and responsibilities for each party.
- Option Agreements are almost always limited in time (typically one year or less)
- Option Agreements are not License Agreements since they almost never allow commercial use or sale
- These Agreements are typically used by an IP owner and a potential licensee that is seriously interested in licensing, but desires some pre-license evaluation.

# Option Agreements

## What are they? When are they needed?

- The Option Agreement is often used when the potential licensee is serious enough to invest the time and money necessary to evaluate and validate the technology, and....
- In order to justify this investment, the Optionee wants a contractual promise by the would-be licensor, to license the Optionee at the completion of the evaluation.
- Option Agreements typically require the payment of some consideration by the Optionee to the Optionor

# Option Agreements

**What role do they play in the IP management, technology transfer process?**

- The Option Agreement provides assurance to the potential licensee of the performance of a technology, prior to the much larger commitment of a license agreement.
- Since the Option is typically used as the basis for technology validation, it is useful for both parties.

# Option Agreements

**What role do they play in the IP management, technology transfer process?**

The critical elements of the Option include:

- Duration of the Agreement  
should be based on the time necessary for potential licensee to carry out the evaluation  
(normally 1 year max; typically 2-9 months)
- Data developed by evaluator (Optionee) should be available to Optionor  
(that way, if no license is signed, the IP owner has obtained useful data it can use elsewhere)

# Option Agreements

**What role do they play in the IP management, technology transfer process?**

- The Option Agreement can also be used to establish a nominal commitment between the parties, while they take the time needed to negotiate a complex license agreement
- Often, a work-in-progress license agreement draft is attached to the Option Agreement
- Attaching some terms and conditions of the potential license agreement to the Option provides assurances to both parties



# Option Agreements

**What role do they play in the IP management, technology transfer process?**

- The parties should also agree in the Option, whether the IP owner can continue to market the IP, and if so, what rights the Optionee shall have (e.g. right of first refusal)
- The IP owner (Optionor) should weigh the “opportunity cost” of waiting for the potential licensee to decide on a license/no license

# Option Agreements

The opportunity cost of waiting for the potential licensee to decide on a license/no license is typically paid by the Optionee in some combination of the following:

- Payment of IP owner's IP expenses during period of the Option
- Payment of IP owner's IP expenses incurred up to the start-date of the Option
- Documented work plan and costs for the evaluation provided by Optionee to Optionor
- A non-refundable Option Fee

# Option Agreements

- The Optionor and Optionee should integrate the Option fees with the fees and other costs of the license agreement, if it is exercised
- For example, the Option Fee can be a partial or total pre-payment of the License Fee

# **Option IP Agreements**

**What are the elements of a typical Option IP Agreement?**

# **Option Agreements**

## **Elements of a typical Option Agreement**

# The Parties defined

## Option Agreement

This Option Agreement (the "**Agreement**") is entered into as of the \_\_\_\_\_, **20XX** (hereinafter called "**the Effective Date**") between **XXXXXXXX.**, with its registered address at \_\_\_\_\_, (hereinafter "**XXX**") and YYYYYYYY, with an address at \_\_\_\_\_ (hereinafter "**YYYYYYY**"). **XXX** and YYYYYY shall hereinafter collectively be referred to as "**the Parties**" and individually as "**Party**".

The Parties hereby agree that:

# Whereas clauses: no legal impact, set the stage

**WHEREAS**, Party A is the owner of the intellectual property defined hereinbelow (the “Optioned IP”); and

**WHEREAS**, Party B is seriously considering licensing commercial rights to Optioned IP from Party A, and wishes to evaluate the performance of Optioned IP prior to said licensing; and

**WHEREAS**, Party A is willing to provide certain limited rights to Party B for the purpose of said pre-licensing evaluation under the terms and conditions contained hereinbelow; and

**WHEREAS**, The Parties acknowledge that mutual benefits will be obtained by the exercise of the rights and obligations of this Agreement; and

**NOW THEREFORE**,  
the Parties hereby agree as follows:

# Defining the Optioned IP

**“Optioned IP”** shall mean all those invention disclosures, patent applications, and issued patents described and listed in Attachment 1.



# Rights & Obligations of Optionee

Optionee shall have the right to test and evaluate the  
Optioned IP.

Optionee shall not have the right to commercially use,  
manufacture, or sell the Optioned IP without a  
separate, signed license agreement.

Optionee shall provide Optionor with documentation of the  
evaluation work plan including methods, materials,  
and costs of such evaluation.

Optionee shall provide copies of all data derived from  
evaluation of the Optioned IP, to the Optionor, in a  
timely manner

## **Option Fee** (alternatives)

Optionee shall pay a one-time Option Fee of \$XXXXXX,  
due on signing of the Agreement

Optionee shall pay all Optionor's out-of-pocket IP expenses  
incurred during the Option Period

# **Option Period**

The Option Period shall last for a period of XX months,  
beginning with the Effective Date

The Option Period may be extended by mutually agreed,  
written amendment.

## **Optionor's Rights** (alternatives)

Optionor shall retain the right to market the Optioned IP to third parties.

In the event a third party expresses interest in licensing Optioned IP, Optionor shall grant Optionee the right of first refusal on a license

Optionor retains the right to license Optioned IP to third parties, without regard to the interests of Optionee

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**Thank you**