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Protecting IP Rights in Joint Development Agreements and Strategic Alliances

Adam Petravicius
Jenner & Block LLP
May 12, 2016
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What’s In a Name?

“A rose by any other name would smell as sweet.”

– Juliet, Romeo and Juliet
Defining (and Identifying) JDAs

• Each party contributing resources with expectation of working together to creating something new.
  – The “something” may not necessarily be IP (e.g. joint product offering) but IP can often be a result.
  – Can include improvements/modifications to something.
  – Contributions can be different in kind (e.g., one party contributes employee talent, and other party contributes materials).

• Joint development often occurs in context of broader agreement (e.g., vendor performing services).

• Distinguish “joint development” from just “development.”

• Better safe than sorry.
Know What’s Driving the Deal

“Now you know, and knowing is half the battle.”

– G.I. Joe

Battle

- Knowing
- Other Stuff
Driving Factors

• Critical to understand parties’ motivations and expectations (both sides).
  – Significant impact on how IP issues are addressed.
  – Can avoid wasting time on unimportant issues.
  – And more importantly – can highlight non-apparent issues.

• Diverging or opposing interests must be understood and addressed appropriately.

• There is no one-size-fits-all approach.
Pick Good Partners

“I don’t care to belong to any club that will have me as a member.”

– Groucho Marx
Partner Suitability

• Due diligence and evaluation very important.
  – Include any relevant affiliates or third-party relationships.

• Contract terms cannot address everything.
  – IP provisions often rely on parties acting reasonably / in good faith.
  – Violations can be difficult to detect or impossible to remedy.

• Difficulty of handling certain issues corresponds to overlap in parties’ respective businesses and/or organizational goals.

• Involvement of non-US companies or non-US resources (including personnel) requires consideration of non-US laws.
  – Certain issues cannot be addressed by choice of law provision in contract (e.g., effect of bankruptcy of non-US company).
  – US export control laws may apply (including access by foreign nationals residing in US).
What Is Everyone Bringing to The Table?

NICE GUY EDDIE
C'mon, throw in a buck.

MR. WHITE
Uh-uh. I don't tip.

NICE GUY EDDIE
Whaddaya mean you don't tip?

MR. WHITE
I don't believe in it.

– Reservoir Dogs
Parties’ Contributions

• Need to understand and document each party’s contributions, which may include:
  – Pre-existing IP (Background IP);
  – Third-party IP (e.g., license rights);
  – Personnel and know-how; and
  – Other resources or capabilities.

• Also need to understand what is not being contributed (e.g., third-party license rights).

• Protect against contributions in the form of “baggage.”
Choose Structure Wisely

“You must choose. But choose wisely…”

– Grail Knight, *Indiana Jones and the Last Crusade*
Structure Considerations

• Invest time up-front to consider best structure.
  – Many ways to do things, but some are often better than others for a particular context.

• Primary choice is picking between:
  – Contractual relationship only; and
  – Joint venture (new entity).

• Other key considerations:
  – IP issues (to be discussed by Sharon and Aaron);
  – Governance of relationship (including dispute resolution);
  – Risk allocation and liability issues; and
  – Tax consequences.
Contractual Relationship Only

Party A

Party B
Contractual Relationship Only

One or more contracts, which may include IP licenses.
Contractual Relationship Only

One or more contracts, which may include IP licenses.

Transfer of IP rights, cash or equity interests, or other assets.
Contractual Relationship Only

Party A      Party B

One or more contracts, which may include IP licenses.
Transfer of IP rights, cash or equity interests, or other assets.
Third-party contracts, which may include IP licenses.
Joint Venture (JV)

Party A

Party B
Joint Venture (JV)

Equity ownership.
Joint Venture (JV)

- **Equity ownership.**
- **Transfer of IP rights, cash or equity interests, or other assets.**
Joint Venture (JV)

- **Equity ownership.**
- **Transfer of IP rights, cash or equity interests, or other assets.**
- **One or more contracts, which may include IP licenses.**
Joint Venture (JV)

Equity ownership.

Transfer of IP rights, cash or equity interests, or other assets.

One or more contracts, which may include IP licenses.
Joint Venture (JV)

Party A

Equity ownership.

Transfer of IP rights, cash or equity interests, or other assets.

One or more contracts, which may include IP licenses.

Third-party contracts, which may include IP licenses.

Party B

JV

Third-party contracts, which may include IP licenses.
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Protecting IP Rights in Joint Development Agreements and Strategic Alliances

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Overview

Joint development agreements and strategic alliances involve multiple issues:

- Clear definition of fundamental purpose and goals of new entity or alliance (the “Collaboration”)
- Structure of the Collaboration
- Management and decision-making for the Collaboration
- Financial, property and employee contributions of the parties
- Intellectual property (“IP”) rights
  - Rights of parties contributing to the Collaboration
  - Rights of the Collaboration itself
  - Rights after the termination of the Collaboration
- Termination of the entity/alliance
- Business/IP needs of individual parties to the Collaboration
Defining IP Rights

- IP rights are often the most complex issue when entering any joint development agreement or strategic alliance
  - Especially true if technology involved
- Clear definition of purpose/goals of the Collaboration critical to framing IP rights
- Need to factor in whether the Collaboration will be a separate legal entity or virtual alliance
- Need to carefully define 3 categories of IP:
  - Existing IP or technology contributed by the parties ("Contributed IP")
  - IP or technology developed by the Collaboration ("Joint IP" or "Developed IP")
  - IP or technology developed by the Collaboration that will not be considered Joint IP ("Derivative IP" or "Excluded IP")
Contributed IP

- “Contributed IP” is the IP or technology that each party brings to the Collaboration before any joint efforts
- Easiest of the categories to clearly define
- Identify all components of each party’s contributions:
  - Technology or product
  - Patents and patentable material
  - Trade secrets
  - Copyrights
  - Trademarks
  - Any other proprietary rights
- Describe Contributed IP on schedules (preferable) or in body of agreement
Contributed IP - Key Terms

- Key terms in body of agreement:
  - Who owns Contributed IP?
    - Does each party retain ownership of respective Contributed IP?
    - Clarify if parties can use Contributed IP outside of entity/alliance
  - Form of the Collaboration:
    - Separate legal entity
    - “Virtual” alliance

- If Collaboration is a separate legal entity, most common options for Contributed IP are:
  - Non-exclusive license to Collaboration
  - Semi-exclusive license to Collaboration
  - Exclusive license to Collaboration (typically coupled with very narrow field or territory)
  - Assignment to Collaboration (typically coupled with reassignment obligation post-termination)
Contributed IP - Key Terms (cont’d)

- If Collaboration is a “virtual” alliance, parties more likely to need to retain rights to Contributed IP:
  - Cross non-exclusive licenses to each party
  - Cross-semi-exclusive licenses to each party
  - Need to include clear limits on uses of each party’s Contributed IP outside scope of Collaboration

- Whether separate legal entity or virtual alliance, need to consider post-termination rights for Contributed IP:
  - Need for continued access by Collaboration?
    - Extinguish inventory?
    - To enable maintenance services?
  - What if one party buys out other party?
Joint IP

- “Joint IP” is the IP created as a result of the efforts of the Collaboration
- Key to appropriately handling development of Joint IP is to clearly define expected outcome of the Collaboration:
  - Data
  - Research/reports
  - Patentable technology
  - Tangible product
- Need to balance the rights needed by the Collaboration with the rights of individual parties
- Affected by whether Collaboration is separate legal entity or virtual alliance
Joint IP - Collaboration is Separate Legal Entity

- When Collaboration is separate legal entity, apportioning Joint IP easier
- The most common approach is all Joint IP owned directly by the Collaboration itself
- Need to consider if Collaboration has direct employees or will be “borrowing” employees from one of the parties forming the Collaboration:
  - Joint IP rights cleaner if separate employees
  - If shared employees, need to carefully define scope of work to ensure Joint IP is assigned correctly
- If any Joint IP granted back to the parties to the Collaboration, need to consider what fields will be retained exclusively by the Collaboration
Joint IP - *Collaboration is Virtual*

- Joint IP considerations are more complicated with virtual Collaborations that do not involve creation of a separate legal entity
- Joint IP ownership affected by:
  - Where work of the Collaboration will physically occur
  - Which party(s) employees are doing the work
- Harder to separate out creation of Joint IP that should belong to Collaboration from a party’s individual IP
Joint IP - Virtual Collaboration (cont’d)

- Most straightforward approach - any Joint IP created fully jointly owned by the parties:
  - Each party has undivided ½ (if 2 parties) interest in the whole of the Joint IP
  - Each party has unrestricted use of Joint IP, including rights of sublicense
  - Key agreement terms:
    - Specify whether parties are obligated to account to each other for profits from use of Joint IP
    - Clarify that use of Joint IP includes right to use Contributed IP of each party solely as embedded in Joint IP
- Consider whether business or technical concerns of one party warrants limits to true joint ownership
Joint IP - Virtual Collaboration (cont’d)

 Alternatives to full joint ownership of Joint IP:

▶ Each party has joint ownership, but one party agrees to restrictive covenants on use of Joint IP
  ▶ Often used when a party wants to prevent disclosure to a competitor

▶ Joint IP assigned solely to one party with a license to other party (limited as necessary)

▶ Joint IP assigned solely to one party

▶ As with Contributed IP, need to consider post-termination rights for Joint IP, whether the Collaboration is a separate legal entity or virtual.
Joint IP - Exposure of Contributed IP

- Joint IP almost always contains elements of Contributed IP
- Need to consider downstream exposure of each party’s Contributed IP
  - In the “widget” sold by Collaboration
  - Within retained knowledge
- Solution?
  - Include requirement that neither party (nor the Collaboration itself) may use another party’s underlying Contributed IP independently of the Joint IP
  - Require similar prohibition in downstream agreements with potential sublicensees, customers or other third parties
Derivative IP

- “Derivative IP” is IP created in the course of the Collaboration that is ancillary to, or even fully separate from, the fundamental purpose of the Collaboration.
- Technically usually “Joint IP”, but carving out by contract.
- Derivative IP is often the most difficult to define and address.
- Fine line between:
  - Joint development effort central to fundamental purpose of Collaboration.
  - Mere modification or derivative of a party’s Contributed IP.
Derivative IP (cont’d)

- Parties to collaborations typically want unfettered ability to continue to use respective Contributed IP:
  - Usually want to retain modifications or derivatives
  - No “pollution” of a party’s individual products/IP

- Example - Collaboration to develop computer software module to allow communication/sharing between independently developed programs or technology platforms
  - New “plug-in” communication module to be jointly owned
  - In course of creating new module, improvements conceived for one or both underlying programs/technology
  - Each individual contributor wants to retain full rights to their respective underlying program/technology

- Solution?
  - “Plug-in” is Joint IP and property of Collaboration
  - Each party retains any mere modifications or derivatives to their respective Contributed IP, and excluded from Joint IP
Derivative IP  (cont’d)

- Key agreement terms:
  - Clear definition of fundamental purpose of Collaboration to frame Joint IP that will be owned by the Collaboration (see prior discussion)
  - Assignment of Derivative IP to owner of relevant Contributed IP:
    - Each party to the Collaboration assigns in main agreement
    - Collaboration itself also assigns if a separate legal entity
    - All individuals working on Collaboration must directly or indirectly assign
  - Consider whether royalty possibilities
  - Not as many post-Collaboration issues since can assign pre-termination
Final Considerations

- **Nothing set in stone** - every joint venture and alliance deal is different!
- Consider whether true collaboration is best path forward, or whether an IP/technology license sufficient
- Must evaluate IP rights based on specific transaction
- Respective bargaining power of each party can affect division of IP
- Consider impact any government funding may have on IP rights
- Always consider what happens if the Collaboration ends badly
Questions?

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Protecting IP Rights in Joint Development Agreements and Strategic Alliances

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Why?

– Because a Joint Development Agreement or Strategic Alliance is just two or more people or entities in it together for the profit
Avoid Creating Your Own Enemy

- Choose your partner carefully
- Why are the parties coming together?
  - How do the skill sets complement each other?
  - Are the interests aligned?
  - What are the current and future business plans?
- Grant of exclusive rights to
  - Field of Use
  - Territory
  - Products
- Remember, Give a Hoot and Don’t Pollute!
Do You Really Know Your Friend?

Due diligence
– What’s the IP they really have?
– Does it work?
– Do they own it? In-license it?
– Are there third parties who’ve licensed the IP?
– Is the IP encumbered?
All agreements discuss Background IP

- How is it defined?
- Background IP will likely evolve over the term, perhaps even influenced by the activities related to the relationship
- Static versus dynamic background
Defining Your Sandbox

- Separate Field of Use for each party
- Allows parties to more freely and confidently exchange information with less fear of empowering a competitor
- What if the Sandboxes touch, or worse, overlap?
  - Ability to use Background IP or Joint IP?
  - Subject to Agreement by the parties?
When the parties all go their separate ways, what happens if your former buddy obtains patents on the Joint IP?

– Should the improvements be shared?
  - Could it block the other party’s use of the Joint IP or ability to further develop?
  - Required license grant to the other party?
  - Should the other party be required to pay royalties or other fees?
Expanding the Universe

- Who gets to control patent prosecution?
  - One party controls / one party influences?
  - Both parties control
    • Do the parties have the ability to compromise and work together?

- Consider the costs of prosecution and maintenance of patents.
Only an owner, assignee or inventor may prosecute a patent in front of the USPTO
– Other parties, including exclusive licensees require an agreement if they want to control prosecution
Dispute Resolution

- Consider what rights may need to be resolved
  - Resolution of ownership rights may require special skill sets
  - Use of an independent neutral
    - E.g., an independent patent attorney who can review materials and make determinations regarding inventorship

- Consider the impact of the resolution on the JDA or Strategic Alliance
  - Should the efforts be put on hold while the resolution is determined?
Travel Planning

- Governing law might be a strategic play
  - Default laws differ among various countries
Put Your Money Where Your Mouth Is

- **Representations & Warranties**
  - A party has all necessary rights, whether by ownership or license, to grant the rights under the agreement
  - No knowledge of third party claims or other encumbrances on the background IP

- **Indemnification**
  - Background IP
  - Joint IP
Who can enforce the rights against third parties?

– Owners
  • All Owners must join in, what happens if there is a holdout?
  • Exclusive right to bring a suit

Who is left out in the rain?

– Exclusive licensees
  • Generally require owner, unless granted all substantial rights
– Non-exclusive licensees
What if one co-owner is seeking to sue a third party for infringement and the other party is negotiating a license with that same third party?

– Defense against infringement
When the Relationship is Over

- Background IP
  - Is the IP needed to practice Jointly Developed IP?

- Jointly Developed IP
  - Do the parties have the right to freely exploit?
    - In any Field?
    - In any Territory?
    - Sublicense?
Agreements restricting the rights of a party may be deemed to be an “executory contract” under the Bankruptcy Code

- If licensee is bankrupt, could reject agreement
  - It rights would generally revert to default rules
- If licensor is bankrupt, licensee has choice, to accept or reject
Was That the Right Choice?

After all is said and done, was the JDA or Strategic Alliance the right choice for the parties?

- **Stock / Asset Acquisition / Merger**
  - Purchaser buys the stock or assets of seller or merges seller into it
  - Purchaser owns IP

- **Contract Manufacturing**
  - A hires B to make widgets under A’s name
  - A owns the IP

- **License & Royalty Agreements**
  - A pays B a royalty to license technology from B to manufacture
  - B owns the IP

- **Greenfielding**
  - A builds a facility / buys a building & outfits to suit manufacturing needs
  - A owns the IP

- **Joint Venture**
  - A and B contribute IP to new joint venture
  - A and B own joint venture
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