

The Exponential Speed of Innovation: Is IP Driving Your Business?



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Joint Development Nuances in Accelerated Global Economy

JOINT DEVELOPMENT AGREEMENT CHECKLIST

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During the initial stage of an engagement, the parties typically enter into a non-disclosure agreement (NDA). This initial phase is generally limited to determining each party's interest in entering into a transaction. The NDA's purpose is to protect the intellectual property of a disclosing party and to prevent the receiving party from any improper use, access, or disclosure of the disclosing party's intellectual property.

However, once the parties move beyond generalized discussions about the development of new or improved products/processes (and associated intellectual property), the parties should consider entering into a joint development agreement (JDA). This JDA should, at a minimum, address: (a) each party's responsibilities and obligations; (b) who shall bear any financial risk; (c) who shall bear any potential liability; (d) development, use, and ownership of any developed products/processes and associated intellectual property; and (e) the term of the JDA, including any rights or obligations post-termination.

The following checklist may be useful in developing the JDA:

√ Involved Parties

- ◆ Who are the parties working on the development?
- ◆ Do the parties compete? In what product/technology areas or geographic regions?
- ◆ Will any subsidiaries or affiliates of the parties be involved?
- ◆ Will any third parties be involved?

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- ◆ Are any personnel of a party required to be involved for the performance of the JDA?
- √ Term
 - ◆ What is the expected timeframe for completion of the joint development?
 - ◆ Timeframe for parties' relationship or duration of the JDA?
 - ◆ How can the parties get out of the JDA? For what cause? At what cost?
- √ Schedule
 - ◆ Establishment of a schedule with respect to the expected development process, including regular milestone checks and potential "out" clauses if success factors not achieved or not achieved on contemplated schedule.
- √ Purpose
 - ◆ What product or process is being developed?
 - ◆ Is the product or process new, or an improvement to an existing product or process?
 - ◆ Will the product or process be developed or manufactured in the US? Abroad?
 - ◆ Will the product or process be sold or made available in the US? Abroad?
- √ Confidentiality
 - ◆ The JDA must ensure that proper protections are established and in place to ensure that each party's intellectual property, proprietary information, developments, and the existence of the relationship, if applicable, are all kept confidential.
 - ◆ Confidentiality should also include the results of any such development work, such as whether such development was successful.
- √ Scope
 - ◆ What major products, processes, R&D projects, future, or developmental processes/products and businesses are involved?
 - ◆ Each party should ensure that all applicable departments/personnel are involved. Depending on the nature of the proposed transaction, that may include: business, legal, financial, human resources, engineering, product development, manufacturing, marketing, sales, R&D, real estate, property, business, anti-trust, tax, export, environmental, and securities law.

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√ Intellectual Property

When analyzing one's intellectual property, it is important to consider what happens to that pre-existing / background intellectual property upon execution of the JDA as well as after the termination or expiration of the JDA. The parties should consider whether any such intellectual property will be required by the other party in order to practice the developed intellectual property and whether the parties are willing to grant such rights, and what rights to grant. The parties should also consider what obligations the other party will have in protecting the other party's pre-existing / background intellectual property after the termination or expiration of the JDA.

- ◆ What risk is each party willing to take with respect to disclosing (or allowing use of) its intellectual property to/by a potential competitor or future competitor?
- ◆ What intellectual property is each party contributing to the development?
- ◆ How will the parties define each party's pre-existing intellectual property?
- ◆ What know-how is each party contributing to the development?
- ◆ Does either party have any issued patents or patent applications on the intellectual property it is contributing?
- ◆ Does either party have any trademarks associated with the intellectual property it is contributing? Will any of the trademarks be used with the developed intellectual property? Will there be restrictions on such use?
- ◆ Is any of the intellectual property being contributed subject to copyright protection?
- ◆ Is any of the intellectual property being contributed considered a trade secret of the disclosing party?
- ◆ Is any of the intellectual property being contributed subject to any other form of intellectual or proprietary rights of the disclosing party or any other third party?
- ◆ All existing intellectual property rights should be classified by applicable country.
- ◆ Each party should also determine whether it has current research that might be ripe for future intellectual property protection.
- ◆ Do any third parties have any rights in or to the involved intellectual property? Are any such intellectual property rights licensed from a third party?
- ◆ With respect to all such background intellectual property, consider whether such should be automatically licensed or on a case-by-case basis. It is

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important to consider all forms of background intellectual property, including patents, know-how and trade secrets.

- ◆ Who bears the responsibility, obligation, review of, and costs associated with prosecuting and filing patent applications? Or prosecuting or perfecting the rights in any other developed intellectual property?
- ◆ Is there any litigation affecting the rights or ability to utilize any of the intellectual property of interest under the JDA?
- ◆ Ensure that all employees and third parties involved with the development of intellectual property have proper JDAs in place to ensure all developed intellectual property can be transferred and assigned as required under the JDA.
- ◆ Do the parties need to conduct a freedom to operate with respect to the developed intellectual property?
- ◆ Have the parties considered other possible restrictions on the other party's use of its pre-existing intellectual property, such as no reverse engineering?

√ Ownership

It is important for the parties to have a clear understanding of their own intellectual property as well as that of the other party. It is equally important for the parties to come to an agreement on the use of each other's pre-existing intellectual property as well as the developed intellectual property. Failure to reach or document the parties' intentions may result in each co-inventor (most likely resulting in each party) having full rights to use, prepare derivative works of, license, sublicense, transfer, and otherwise fully exploit the developed intellectual property that was developed under the JDA. In the U.S., the default is an inventor is the owner of the intellectual property. Thus, jointly developed intellectual property would be jointly owned by each of the parties without having to account to the other party. Note, if an inventor makes any inventive contribution to any claim of a patent, the presumption is the inventor has (joint) ownership over the entire patent and each inventor would own a pro-rata, undivided interest in the entire patent.

- ◆ Who will own the developed intellectual property? The parties will need to establish rules regarding types and forms of ownership for all intellectual property developed or otherwise resulting from the performance of the JDA, including each party's right to use, prepare derivative works of, license, sublicense, transfer, and otherwise fully exploit the developed intellectual property.

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- Note, the legal default is that all intellectual property developed by employees of each party shall be owned 50-50 in an undivided interest by each of the parties. Options include, categorizing types of developed intellectual property by class or based upon the background intellectual property used. The parties could also require certain cross-licensing obligations. The parties could also carve out fields of use or ownership based upon the specific development or intellectual property at issue.
- Note, in the U.S. there is no requirement to make an accounting to the other joint owners. The rules may be different in other jurisdictions.
- Possible scenarios for ownership of developed intellectual property:
 - A single party owns all developed intellectual property (consider what license rights the non-owning party is entitled to).
 - Both parties jointly own all developed intellectual property.
 - Each party owns all developed intellectual property based upon a particular technology.
 - Each party owns all developed intellectual property based upon whose contribution of pre-existing intellectual property was more significant.
 - A party shall own all developed intellectual property where such party provides all or a significant percentage of the funding for the research, development and creation of such developed intellectual property.
 - All developed intellectual property is owned by a joint venture between the parties.
- ◆ Is any intellectual property being transferred or assigned under the JDA?
- ◆ The JDA should include a clear resolution mechanism with respect to settling disputes over the ownership of intellectual property.
- ◆ Consider including a provision in the JDA specific to resolving disputes over ownership of developed intellectual property and what constitutes a party's background / pre-existing intellectual property.
- ◆ Consider ownership / grant-back rights after the termination or expiration of the JDA. What if the other party seeks patents on derivative works or improvements on the development technology? Could the other party be prohibited from practicing the developed technology?

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√ Exclusivity

If applicable, it is important to clearly define and develop meaningful field of use restrictions as failure to properly do so may result in enabling the other party to become a competitor. Properly defined fields of use may allow the parties to be able to exchange information without (or minimal) fear that the other party will use such information to compete with the disclosing party.

- ◆ Will either party be subject to limitations or other exclusions, such as territory or field of use?
 - Where the parties cannot define separate fields of use, and such fields overlap, consider requiring the parties to seek consent from the other where a party seeks to use the developed intellectual property in an overlapping field of use.
- ◆ Can the ownership be carved out by field of use?
- ◆ Consider limitations on rights of manufacture, supply, distribution, access, display or how used.
- ◆ Will the exclusivity terms change in the event of expiration or termination of the agreement?

√ Regulatory

- ◆ Is either party or the nature of the JDA subject to any restrictions on press releases and other public statements?
- ◆ Are there any regulatory compliance issues applicable, such as food safety or good manufacturing processes?
- ◆ Are there any requirements with respect to reporting to shareholders or SEC filings?
- ◆ Does either party have any particular guidelines or course of conduct that it wants the other party to adhere to?

√ Fees / Costs / Expenses

- ◆ Who shall bear the cost of development or other costs under the JDA?
- ◆ What percentage or kinds of expenses shall each party be responsible for?
- ◆ Who is responsible for travel and other living expenses?
- ◆ How is the contribution of capital to be allocated?

√ Resources

When determining the responsibilities and obligations of the parties, it is equally important to determine some form of a management committee or decision tree/hierarchy. Failure to set such a process may result in the parties' failure to

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make decisions with respect to the development or any other process under the JDA. There are different approaches, such as setting up a separate management committee made up by members of each party that makes all decisions with respect to matters (or limited to development matters) under the JDA. Another approach is to appoint an individual who is responsible final decisions where a dispute arises between the parties. The appointment of the individual may be based upon whose intellectual property is used or the nature of the technology, for example.

- ◆ Who is responsible for the contribution of resources such as personnel, research, facilities, and equipment?
 - ◆ The JDA should address the required obligations and commitments of each party.
 - ◆ What happens if a party fails to provide or perform its requirements under the JDA?
 - Can this affect a party's ownership of developed intellectual property?
 - Would the party be subject to fines or penalties?
 - Would this modify any time frames set forth?
 - Does this trigger a right of termination by the non-breaching party?
- √ No guarantee of success
- ◆ Ensure that the joint development JDA expressly states that there is no guarantee that the joint development will result in a successful development.
- √ Termination
- ◆ Under what conditions would the JDA expire? Terminate?
 - ◆ What rights does each of the parties have to terminate the JDA? For convenience? For the other party's (material) breach?
 - ◆ When liabilities, penalties, fees are the parties responsible for when the JDA is terminated?
 - ◆ What rights do the parties have with respect to developed intellectual property after the termination or expiration of the JDA? Does it matter if the JDA was terminated for a party's convenience or the other party's breach?
- √ Other
- ◆ The parties will have to determine what warranties, indemnifications and limitations of liability are appropriate given the nature of the JDA.

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- Note, regardless of the above, each party should indemnify the other party for the other party's use of the disclosing party's intellectual property rights in compliance with the terms of the JDA.
 - ◆ Determine whether it is appropriate for the parties to maintain certain levels of insurance during the term of the JDA.
 - ◆ Determine under what circumstances a party is excused for non-performance, such as certain force majeure events.
 - ◆ Consider whether either party should be restricted from soliciting and/or hiring the employees of the other party involved with the development.
 - ◆ Include a provision that clarifies that neither party shall be restricted from its development activities that are unrelated to the development activities under the JDA, and that the other party has no rights in or to such other development activities.
 - ◆ Consider what effect / limitations the JDA will have on a party's ability to conduct its other business(es).
 - ◆ Consider whether entering into the JDA will affect a party's ability to enter into similar or other transactions with unrelated third-parties.
 - ◆ Consider whether entering into the JDA will affect a party's ability to engage in corporate activities, such as acquisitions or divestures of a business unit. Will the sale of the company or divesture of a business unit affect the ownership rights of developed intellectual property or the rights / licenses to use the other party's developed intellectual property? A party's own developed intellectual property?
 - ◆ The parties should consider how each party's intellectual party will be shared and utilized to ensure that a party does not "infect" the other party's products and processes in the event the JDA does not result in developed technology.
- √ Other Agreements
- ◆ Use reservation when putting terms into a JDA that are associated with other or future agreements, such as a manufacturing or supply agreement as the terms of such agreements may be contingent upon the success of the development under the JDA. Other factors may also affect such other agreements such as current and projected demand, market, economy, laws and other regulations, desire to remain in the particular market, and public response.
 - ◆ Notwithstanding the above, consider including language requiring a party to

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- Provide such developed intellectual property exclusively to the other party
- Provide that a party may only purchase or otherwise acquire such intellectual property from the other party
- Limit the manufacture of such intellectual property to that of the parties

√ Joint Ventures

- ◆ A joint venture is a particular form of a joint development arrangement where the parties not only agree on jointly developing a product, technology or some form of intellectual property, but the parties also create a new legal entity which is owned by each of the parties.
- ◆ There are additional considerations with respect to joint ventures, such as the:
 - Form of the joint venture
 - Additional regulatory requirements
 - Reporting requirements
 - Tax consequences
 - Confidentiality between a party and the joint venture
 - Governance for the joint venture
 - Scope of the joint venture, including scope of the business
 - Financing
 - Distributions and reinvestment of profits / Ability to recognize losses
 - Debt
 - Dissolution of the joint venture and other termination and exit strategies / options and rights
 - Right of First Offer, Right of First Refusal, Tag-along and Drag-along