Advanced Patent Licensing 2008:
Critical Issues in
Joint Development Agreements

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Contents

- Why is it important to specify the IP rights of parties in a joint development agreement?
- Types of Joint Development Agreements
- General Issues
- Avoiding having your JDA partner becoming your competitor

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Why is it important to specify the IP rights of parties in a joint development agreement?

• In the absence of an agreement between the parties specifying each party's rights:

• Each co-inventor/co-assignee can independently use, license or exploit the invention without accounting to the other co-inventors/assignees. [i]

• To be an inventor, individual only needs to make an inventive contribution to a single claim of the patent

• Each inventor has a presumption of ownership of the entire patent.[ii]

• Each co-inventor/assignee owns a pro-rata undivided interest in the entire patent and can thus exploit any or all claims.

[i] Drake v. Hall, 220 F. 905 (7th Cir. 1914).

[ii] Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp., 149 F.3d 1309 (Fed. Cir. 1998).

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Why is it important to specify the IP rights of parties in a joint development agreement?

- In the absence of an agreement between the parties specifying each party's rights:

- Only 2 limitations on the rights of each joint inventor/assignee:

  – Co-inventor/assignee cannot grant an exclusive license to a third party, absent consent by the other inventors/assignees, since inventors/assignees can each grant licenses independently and without requiring consent of one another or accounting to one another. [iii]

  – Co-inventor/assignee cannot bring suit under the patent for infringement without other inventors/assignees joining in the suit.

[iii] Schering Corp. v. Roussel-UCLAF S.A. 104 F.3d 341 (Fed 1997).

Why is it important to specify the IP rights of parties in a joint development agreement?

- Better Alternative:
  - Parties need to specifically and explicitly set forth the IP rights of each party in the agreement.

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Why is it important to specify the IP rights of parties in a joint development agreement?

- Rights of parties to use, license or otherwise exploit joint developments
- Define specific Fields of Use for each party for joint developments
- Define and specify which party has obligation or right to file and prosecute patent applications for joint developments
- Can also specify restrictions, such as no reverse engineering.

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Why is it important to specify the IP rights of parties in a joint development agreement?

- Example from Cisco/Akamai agreement:

  – *"8.6 NO REVERSE ENGINEERING. Each of Cisco and Akamai agrees that it shall not (i) copy, modify, create any derivative work of, or include in anyother products any Akamai Property (in the case of Cisco) or Cisco Property (in the case of Akamai) or any portion thereof, or (ii) reverse assemble, decompile, reverse engineer or otherwise attempt to derive source code (or the underlying ideas, algorithms, structure or organization) from any such property, except as specifically authorized in writing by the party owning the same or as specifically provided under this Agreement."*

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Why is it important to specify the IP rights of parties in a joint development agreement?

- Defining ownership of joint development

- Party 1 owns: All inventors from Party 1
- Party 2 owns: All inventors from Party 2
- Co-owned by both parties: one or more inventors from each of Party 1 and Party 2
- Defining based on technology of development rather than inventorship

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Why is it important to specify the IP rights of parties in a joint development agreement?

- Example of defining based on technology of development rather than inventorship in following excerpt from agreement between Dow Chemical and Diversa Corporation

  – *"7.2.4 Inventions Relating to [*****] Enzymes or Licensed Products. Notwithstanding the foregoing, (i) DIVERSA will own all Inventions relating to compositions of matter, uses or methods of, or otherwise involving, any [*****] Enzyme or [*****] except for Joint Intellectual Property or [*****] supplied by DOW, and (ii) DOW will own all Inventions relating to compositions of matter, uses or methods of, or otherwise involving, products made by Licensed [*****] in the Areas of Interest. If the product made by the Licensed [*****] is within the Field but outside the Areas of Interest, then DOW shall have a right of first refusal for a reasonable time to obtain rights for that use under a separate license agreement."*

Why is it important to specify the IP rights of parties in a joint development agreement?

- Defining based on technology of development rather than inventorship
  - Requires parties to agree that inventors from Party 1 can assign to Party 2
  - May want/need to grant non-owning party a license (within their Field of Use)

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Types of Joint Development Agreements

- They can go by many different names

- Development Agreement
- Joint Development Agreement
- R&D Agreement
- Development and License Agreement
- Sponsored Research Agreement
  - Regardless of the ultimate structure of the deal, there are issues regarding the ownership and disposition of intellectual property brought to the agreement by each party, and generated during the agreement term, whether by a single party or by the parties jointly.

Types of Joint Development Agreements

- Company-Company JDA's
  - Both companies of similar size
  - One company significantly larger than the other
  - Company-Contract lab/research organization
- Company-University JDA's

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Types of Joint Development Agreements

- Company-Company JDA's - Both companies of similar size
  - Both companies have comparable bargaining power.
  - The jointly developed subject matter is often freely used by each after the development.

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Types of Joint Development Agreements

- Company-Company JDA's - Both companies of similar size

- In excerpt from Joint Development Agreement between XM Satellite Radio and Sirius Satellite Radio, important to note:
- It was not possible to define exclusive Fields of Use, since both companies are in the same business.
- Important aspects are:
  - Each company maintains full ownership of any technology it brings to the table
  - Each company maintains full ownership of any technology independently developed by the party before or during the agreement. When such technology is included in the joint development, other party gets a royalty free license.
  - Companies have joint ownership of the joint developments.
  - Each can independently license joint developments to third party and parties will share any such licensing revenue. This requires the parties to communicate when licenses are granted by either party.

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Types of Joint Development Agreements

- Company-Company JDA's - one company significantly larger than the other
- Larger company can have considerably more bargaining power than smaller company
- Can result in rather lopsided IP arrangement if not handled properly.
  - One example of a well balanced agreement is the agreement between Nanosys and DuPont in the book materials

Types of Joint Development Agreements

- Company-Company JDA's - Company-Contract lab/research organization
- A common IP clause is that Company that is paying for the work will have complete ownership of any IP resulting from the contract.

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Types of Joint Development Agreements

- Company-Company JDA's - Company-Contract lab/research organization
- For example, the following excerpt is from an agreement between Applied Analytical Industries, Inc. ("AAI"), and GenerEst, Inc. ("Company")

"ARTICLE III

OWNERSHIP

Subject to the Company's payment to AAI for services provided hereunder, all data, information, discoveries and inventions whether patentable or not, and related documentation, which are generated by AAI during the course of this Agreement (or by any subcontractor of AAI pursuant to an agreement providing AAI ownership thereof) which are directly related to the NEW PRODUCTS, the MANUFACTURING MATERIALS or CLINICAL SUPPLIES manufactured by AAI for or on behalf of the Company shall be the exclusive property of the Company."

Types of Joint Development Agreements

- Company-University JDA's - Special considerations unique to Universities
- Need to publish research results vs. need to patent
  - Usually handled by giving Company advance notice before any publication submitted by University, to give Company sufficient time to prepare and file any desired patent applications
- University usually required to maintain ownership of inventions made by University personnel or with University equipment or resources
- Company can obtain first right to exclusive license
  - Difficult to predetermine royalty rates, thus creates some uncertainty

General Issues:

- IP brought into JDA by each party
- IP created as result of JDA
- Disposition of IP after completion/termination of JDA

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General Issues:

- IP brought into the JDA by each party

- "Background IP", "Party 1 IP", "Party 2 IP"…. It is important for each party to define that which it brings to the deal, in order to avoid misunderstandings later.

- Can include both Patents and Know-How

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General Issues:

- IP created as result of JDA
- How to define ownership?
  - ownership follows inventorship; for example in the following excerpt from a Clinical Trial Agreement between a company (COMPANY) and research institution (RESEARCH COMPANY)

General Issues:

"ARTICLE IX - INVENTIONS

9.1 If any patentable inventions or discoveries result from the Randomized Trial conducted by RESEARCH COMPANY under this Agreement, inventorship shall be determined by applicable patent law; ownership follows inventorship. RESEARCH COMPANY shall extend to COMPANY options to obtain exclusive worldwide licenses to RESEARCH COMPANY'S rights in any pertinent patent applications or patents. The options shall expire three (3) months from the date of the receipt of RESEARCH COMPANY'S disclosure to COMPANY. The parties shall exercise reasonable diligence in negotiating license agreements, but if no agreement to license a patent application or patent is reached within six (6) months after an option is exercised, RESEARCH COMPANY shall be free to grant licenses under such patent application or patent to other parties."

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General Issues:

- IP created as result of JDA
- How to define ownership?
  - ownership based on technology area, regardless of inventorship
  - If Party 1 is funding research entirely, ownership can be entirely Party 1
    - May necessitate license of joint development to Party 2, but not necessarily

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General Issues:

- IP created as result of JDA
- How to resolve disputes about ownership?
  - If based on inventorship question (or potentially based on subject matter question), submit inventorship question to neutral third party patent attorney to investigate and make inventorship determination. A suitable provision is shown in the following excerpt from an agreement between Dow Chemical and Diversa Corporation.
  - Requires parties to be able to agree on third party patent attorney

General Issues:

"7.4 Inventorship.

Except as specifically provided above, ownership of Inventions and inventorship shall be determined by the Patent Coordinators in accordance with United States patent law. If the Patent Coordinators can not agree on inventorship or ownership of Inventions, then a neutral patent attorney acceptable to both Parties shall make the determination, with each Party [*****]."

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General Issues:

- Disposition of IP after completion/termination of JDA

- Party 1 IP, Party 2 IP
- Joint IP - Do parties have ability to exploit freely, or do parties agree in the JDA how to deal with the issue (this requires that the relevant portion of the JDA survive termination)
- What about licensing of Joint IP between the parties after JDA?

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Avoiding Having Your JDA Partner Becoming Your Competitor

- First order of business is choosing JDA partner wisely

- Ideal: partner has technology capabilities that complement your own but is in different area of business with no interest in entering your business arena

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Avoiding Having Your JDA Partner Becoming Your Competitor

- Can be good reasons for JDA with University
- Company can get first right to obtain exclusive license of University rights in any joint development. While Company could exploit any joint development without University approval, most Companies will want to gain the exclusive right to the invention through an exclusive license to the University's rights.
- University typically not interested in competing in partner's business (although some Universities do have start-up spawning organizations that could create an issue)

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Avoiding Having Your JDA Partner Becoming Your Competitor

- Define separate Fields of Use of joint developments for each party
- Permits freer exchange of technology between parties
- Requires ability to define each party's Field of Use in a non-overlapping manner with the other party's Field of Use.
- For example, in Nanosys, DuPont Joint development agreement mentioned above, the Exclusive Fields of Use are defined, as is an area called the "Overlap Field":

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Avoiding Having Your JDA Partner Becoming Your Competitor

- *1.14 "Overlap Field" means the fields which fall within both Nanosys' Exclusive Field and DuPont's Exclusive Field."*
- This Overlap Field creates an interesting problem. Section 4.5 of the above noted license between Nanosys and DuPont (see section I(2)(b)) presents a good way of handling this by requiring any use in the overlapping field to be approved by the other party. This gives the parties some control over competitive uses of the technology by the JDA partner.

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Avoiding Having Your JDA Partner Becoming Your Competitor

- Can use non-compete clauses
- Comes with its own set of problems
- Must be sufficiently limited or can be subsequently deemed unenforceable
  - Temporally
  - geographically; and/or
  - subject matter
- Due to the problems inherent with non-competes, it is better to define exclusive fields for each party where possible.

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Avoiding Having Your JDA Partner Becoming Your Competitor

- Grant-backs to Party 2 of improvements made by Party 1 after JDA term
- Should be limited to extent that the improvement is needed for Party 2 to exploit the jointly developed technology in Party 2's Field of Use
- Avoids one party of JDA from obtaining a later patent on an improvement developed after JDA ends that would prohibit other party from enjoying the fruits of the joint developments that resulted from the JDA

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Good Resource for Contract Provisions

http://contracts.onecle.com/type/57.shtml

This website has many sample JDA's, as well as others, that can be used for exemplary language.

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