CRITICAL ISSUES IN JOINT DEVELOPMENT AGREEMENTS

By

J. Derek Mason

Oblon, Spivak, McClelland, Maier & Neustadt, PC

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BIOGRAPHICAL INFORMATION

Faculty Member: _J. Derek Mason_

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Business Affiliation: Oblon, Spivak, McClelland, Maier & Neustadt, PC

Law School: The George Washington University Law School___

Year Admitted to Bar:_1996_

How long have you practiced in the specialty field on which you will speak? _17 years_

J. DEREK MASON is a partner in the Chemical Practice Group of Oblon, Spivak, McClelland, Maier & Neustadt, P.C., in Alexandria, Virginia. His practice focuses on client counseling, IP issues in corporate transactions, portfolio management, licensing, and patent preparation and prosecution, with experience in a wide range of chemical and related areas, such as medical and biotech diagnostics, polymers, textiles, and pharmaceuticals, for both international and domestic clients.

Dr. Mason received his Law degree from the George Washington University National Law Center. He holds a Doctorate in Chemistry from the University of Wisconsin, where he studied organometalloid chemistry. He received his Bachelor of Science with Highest Honors in chemistry from the University of North Carolina, where he also performed undergraduate research in the area of organic photochemistry. He has published and presented papers on his findings in both areas of research.

Dr. Mason is admitted to the Virginia Bar and the Bars of the Virginia Supreme Court, the U.S. Court of Appeals for the Fourth Circuit, the U.S. District Court for the Eastern District of Virginia and the U.S. Court of Appeals for the Federal Circuit. His association memberships include the American Bar Association, the Virginia Bar Association, the American Intellectual Property Law Association (AIPLA), the Licensing Executives Society (LES), and the American Chemical Society.

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- **Intellectual Property in Corporate Mergers and Acquisitions: The New 800 Pound Gorilla?** Licensing Executives Society (LES) - The Greater Washington, DC Chapter. Washington, D.C.. Feb 23, 2006
- **The Growing Importance of IP in Corporate Mergers and Acquisitions** (Presentations) *The University of Texas School of Law, 7th Annual Intellectual Property Law Symposium* Feb 2, 2006
- **The Economic Espionage Act: Federal Protection For Corporate Trade Secrets** (Articles) Mar 1999
- **The Economic Espionage Act: A Prosecution Update** (Articles) Jul 1998
- **The Economic Espionage Act: A New Federal Regime Of Trade Secret Protection** (Articles) *First published in the Journal of the Patent and Trademark Office Society, volume 79 (1997), pages 191-210.* 1997

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

1) In the absence of an agreement between the parties specifying each party's rights:
   a) Each co-inventor (and thus co-assignee) has the right to use, license or otherwise exploit the invention without accounting to the other co-inventors. [3]
   b) If an inventor makes any inventive contribution to even a single claim of the patent, the inventor has a presumption of ownership of the entire patent.[4]
   c) Thus, each joint inventor (or their assignee) owns a pro-rata undivided interest in the entire patent.
   d) The only limitation on the rights of each joint inventor is that one joint inventor cannot grant an exclusive license to a third party, absent consent by the other joint inventors, since joint inventors can each grant licenses independently and without requiring consent of one another or accounting to one another.[5]

2) The better alternative is for parties to specifically set forth the IP rights of each party in the agreement. These include:
   a) Rights of parties to use, license or otherwise exploit joint developments
   b) May define specific Fields of Use for each party for joint developments

c) Define and specify which party has obligation or right to file and prosecute patent applications for joint developments
d) Can also specify restrictions, such as no reverse engineering. In an agreement between Cisco and Akamai, the following clause was used:

> *"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 any other 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."*

3) <u>Defining ownership of joint development</u>
   a) Party 1 owns: All inventors from Party 1
   b) Party 2 owns: All inventors from Party 2
   c) Co-owned by both parties: one or more inventors from each of Party 1 and Party 2
   d) Defining based on technology of development rather than inventorship as in the following excerpt from an 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."

i) Requires parties to agree that inventors from Party 1 can assign to Party 2
ii) May want to grant non-owning party a license (within their Field of Use)

II. <u>There are many types of Joint Development Agreements</u>

1) <u>They go by many different names:</u>
   a) Development Agreement,
   b) Joint Development Agreement,
   c) R&D Agreement,
   d) Development and License Agreement, …..
   e) 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.

2) <u>Company-Company JDA's</u>
   a) Where both companies are of similar size - typically in this situation, both companies have comparable bargaining power. The jointly developed subject

matter is often freely used by each after the development. for example, the following excerpt is from a Joint Development Agreement between XM Satellite Radio and Sirius Satellite Radio. It is important to note that in this agreement it was not possible to define exclusive Fields of Use, since both companies are in the same business. The important aspects are:

i) Each company maintains full ownership of any technology it brings to the table
ii) 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 (Interoperability Technology), the other party gets a royalty free license.
iii) The companies have joint ownership of the joint developments.
iv) Each company can independently license such 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.

"ARTICLE IV

Intellectual Property Rights and Ownership

4.01. XM Radio System. The parties agree that XM owns, or has license rights to, the XM Radio System and shall at all times continue to retain full and exclusive right, title and ownership and/or license, as the case may be, in and to the XM Radio System, and in any and all intellectual property rights therein, including, but not limited to, all rights in related patents, trademarks, *copyrights, derivative works and proprietary and trade secret rights and know-how.*

4.02. Sirius Radio System. The parties agree that Sirius owns, or has license rights to, the Sirius Radio System and shall at times continue to retain full and exclusive right, title and ownership and/or license, as the case may be, in and to the Sirius Radio System, and in any and all intellectual property rights therein, including, but not limited to, all rights in related patents, trademarks, copyrights, derivative works and proprietary and trade secret rights and know-how.

4.03. Interoperability Technology. (a) Subject to each party's rights set forth in Sections 4.01 and 4.02, the parties agree that XM and Sirius shall jointly own the Interoperability Technology jointly developed by the parties and jointly funded hereunder, and any and all intellectual property rights therein, including, but not limited to, all rights in related patents, trademarks, copyrights, derivative works and proprietary and trade secret rights and know-how. Each party shall give the other party all reasonable assistance and shall, at the other party's request and expense, execute and deliver all documents and assignments which may be necessary to establish the joint ownership rights in the Interoperability Technology.

(b) If any patentable inventions are created as a result of the parties' joint development activities hereunder, the parties agree to cooperate in the filing and prosecution of patent applications for such inventions with the costs to be shared

equally by the parties. Any resulting patent shall be jointly owned by Sirius and XM.

(c) Each party agrees to require each of its employees to assign to such party all of such employee's right, title and interest in and to Interoperability Technology and all related intellectual property rights, including patents, patent applications, copyright, derivative works, trademarks, trade secrets, know-how and other proprietary rights.

………

ARTICLE V

Licensing Matters

5.01. Independent Developments. (a) In the event that either party independently develops technology, including any technology existing on the Effective Date, that is included in Interoperability Technology, such party shall retain full right, title and interest in and to such technology, including any and all intellectual property rights therein; however, each party hereby grants to the other party, to the fullest extent possible, subject to any Third Party Technology restrictions as described in Section 5.03, a perpetual, non-exclusive, royalty-free, worldwide license to use, copy, distribute, sublicense and allow its Distribution Partners and Radio Manufacturing Partners to sublicense such technology for the purpose of manufacturing Interoperable Radios and marketing and distributing Interoperable Radios in North America.

(b) In addition, each party shall retain full right, title and interest in and to its technology included in the digital satellite radio system of such party as of the Effective Date, including any and all intellectual property rights therein; however, each party hereby grants to the other party, to the fullest extent possible, subject to any Third Party Technology restrictions as described in Section 5.03, a perpetual, non-exclusive, royalty-free, worldwide license to use, copy, distribute, sublicense and allow such other party's Distribution Partners and Radio Manufacturing Partners to sublicense such technology (including any other technology relevant to a satellite digital audio radio system that such party, or any officer, employee or affiliate of such party, may own or have a license to use) for the purpose of manufacturing, marketing and distributing such other party's satellite digital audio radio system in North America, including any Single Mode Radios used in connection therewith; provided that the technology covered by such license shall exclude all Non-core Technology.

5.02. Independent Development of Non-core Technology. In the event that either party independently develops or licenses technology that is not included in the definition of Interoperability Technology ("Non-core Technology"), such Non-core Technology shall remain the property of the developing or licensing party; and all right, title and interest in and to such Non-core Technology, including any intellectual property rights therein, shall reside with the developing or licensing party. In such event, the developing or licensing party shall

make available (or, in the case of licensed technology, use commercially reasonable efforts (which shall not include the payment of additional license fees) to make available) to the other party, upon written request, a license for such Non-core Technology on commercially reasonable terms. In the event that the non-developing party does not accept such commercially reasonable terms, no
license shall be granted. In no event shall either party be entitled to any equitable relief with regard to Non-core Technology.

5.03. Third Party Technology. Each party shall be responsible, at its cost, for licensing any Third Party Technology to the extent that such Third Party Technology is used in the digital satellite radio system of such party. All licenses granted hereunder shall be subject to existing agreements entered into by the parties for such Third Party Technology. A listing of the Third Party Technology included within each party's satellite digital audio radio system as of the Effective Date shall be provided to the other party within 30 days of the Effective Date. Each party shall, within 30 days of the Effective Date, provide to the other party copies of any agreements executed by such party relating to Third Party Technology, to the extent such party is legally entitled to disclose such agreement. Each party shall use commercially reasonable efforts to obtain all consents necessary to disclose such agreements to the other party in accordance with the terms of this Agreement.

5.04. Licensing of the Interoperability Technology to Third Parties.

Subject to any restrictions in the Third Party Technology agreements, as joint owners of the Interoperability Technology, the parties shall each have authority to license (and permit the sublicense of) the Interoperability Technology to third parties, including, but not limited to, manufacturers of integrated circuits and receivers ("Radio Manufacturing Partners"), for the purpose of manufacturing, marketing, distributing and/or selling Interoperable Radios. The parties shall share equally in any licensing, technical assistance or other revenue recognized from such third party licensing of, or technical or other assistance relating to, Interoperability Technology."

b) Where one company is significantly larger than the other - In this situation, the larger company can have considerably more bargaining power than the smaller company, and can result in a rather lopsided IP arrangement if not handled properly. One example of a well balanced agreement is an agreement between Nanosys and DuPont:

" 4. OWNERSHIP.

4.1 Each party shall retain its ownership of its Background IP. No rights are granted pursuant to this Agreement with respect to any Background IP.

4.2 Whether Collaboration Technology is jointly or solely made shall be determined according to United States patent law or, as to original works of authorship, according to United States copyright law. Except as to patent ownership, all other questions *concerning the construction or effect of patent applications and patents shall be decided in accordance with the laws of the country in which the particular patent application concerned has been filed or granted.*

4.3 Each of Nanosys and DuPont shall own the Collaboration Technology solely made by its respective employees, agents, and contractors. Subject to Sections 4.5, 5, 6, and 7 below, sole ownership of Collaboration Technology shall vest in the owning party the exclusive right to determine whether and how the Collaboration Technology and the associated intellectual property rights are to be protected and exercised throughout the world.

4.4 Nanosys and DuPont shall jointly own jointly made Collaboration Technology ("Joint Developments"), with no duty to account, and, subject to Sections 4.5, 5, 5, 6, and 7 below, each party shall have the right to use and exploit such Joint Developments without consent of the other party. Each party waives any rights under applicable law that it may have to require consent or an accounting. Subject to Sections 4.5, 5, 6, and 7 below, joint ownership of Collaboration Technology and the associated intellectual property rights shall vest in the parties the joint right to determine whether and how the Collaboration Technology and the associated intellectual property rights are to be protected and exercised throughout the world.

*4.5 Each party agrees that it will not use any of its solely owned or jointly owned Collaboration Technology (or any associated solely owned or jointly owned Collaboration IP) in the Overlap Field, except as may be agreed by the parties in writing. If either party desires to use any such Collaboration Technology and/or Collaboration IP in the Overlap Field, it may provide written notice to the other party, in appropriate detail, of the proposed scope of such use. Within [*** Redacted] days after such notice, the other party shall, by written notice to the original notifying party, respond either (i) granting permission for such use, or (ii) offering to negotiate the terms and conditions of such use, it being understood that neither party shall be obligated to enter into any particular agreement or arrangement, nor shall either party be obligated to enter into any agreement or arrangement that is inconsistent with its then current obligations to third parties. Any failure to so respond within this [*** Redacted] day period shall be irrevocably deemed permission for the originally notifying party to use such Collaboration Technology and/or Collaboration IP as proposed in the original party's notice. With respect to Collaboration IP for which permission is so granted, to the extent such Collaboration IP is solely owned by the party granting such permission, such party shall be deemed to have granted to the other party a worldwide, nontransferable (except as set forth in Section 11.7 below), royalty free license, only under such Collaboration IP, to design, develop, make, have made, use, import, offer to sell,* *and sell or distribute any product or item and to practice any method or process, in each case limited to the scope of use specified in the licensee's notice provided as set forth hereinabove."*

c) Company-Contract lab/research organization - A common IP clause in these arrangements is that the Company that is paying for the work will have complete ownership of any IP resulting from the contract. 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."

3) <u>Company-University JDA's</u>

a) Special considerations unique to Universities
   i) need to publish research results vs. need to patent - this can usually be handled by giving the Company advance notice before any publication is submitted by the University, in order to give the Company sufficient time to prepare and file any desired patent applications
   ii) University required to maintain ownership of inventions made by University personnel or with University equipment or resources
   iii) Company can obtain first right to exclusive license
      (1) Difficult to predetermine royalty rates, thus creates some uncertainty

4) Joint Ventures
   a) Special breed of JDA in which not only do parties provide research capability and resources, but parties create new corporate entity
   b) Many other factors, particularly upon dissolution of Joint Venture, outside scope of this presentation

III. General Issues:

1) IP brought into the JDA by each party
   a) “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.
   b) Can include both Patents and Know-How

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

"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."

ii) ownership based on technology area, regardless of inventorship

iii) If Party 1 is funding research entirely, ownership can be entirely Party 1
   (1) May necessitate license of joint development to Party 2, but not necessarily

b) How to resolve disputes about ownership?
   i) 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:

"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 [*****]."

ii) Requires parties to be able to agree on third party patent attorney

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

IV. <u>Avoiding having your JDA partner becoming your competitor</u>

1) <u>First order of business is choosing JDA partner wisely</u>
   a) Ideal: partner has technology capabilities that complement your own but is in different area of business with no interest in entering your business arena
   b) Can be good reason for JDA with University

i) 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.

ii) University typically not interested in competing in partner's business (although some Universities do have start-up spawning organizations that could create an issue)

2) Define separate Fields of Use of joint developments for each party

i) Permits freer exchange of technology between parties

ii) 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 the Nanosys, DuPont Joint development agreement mentioned above, the Exclusive Fields of Use are defined, as is an area called the "Overlapping Field":

> *"1.12 "Nanosys' Exclusive Field" means compositions, devices, articles, and methods involving or involved in Nanosys [*** Redacted] Nanomaterials Technology, but excluding Conventional Materials, except including [*** Redacted] when used in an architecture such that [*** Redacted] (e.g. substantially similar to replacing [*** Redacted] in the applications described in Nanosys' Nature Paper (Duan et al, Nature, 425, p 274, 2003) with [*** Redacted]).*

> *1.13 "DuPont's Exclusive Field" means compositions (including without limitation Conventional Materials), devices, articles, and methods involving or involved in Dupont [*** Redacted] Technology, but excluding Conventional Materials used in conjunction with Nanosys [*** Redacted] Nanomaterials Technology, and excluding [*** Redacted] when used in an architecture such that [*** Redacted] (e.g. substantially similar to replacing the [*** Redacted] in the applications described in Nanosys' Nature Paper (Duan et al, Nature, 425, p 274, 2003) with [*** Redacted]). For the avoidance of doubt, Conventional Processes used in conjunction with Nanosys [*** Redacted] Nanomaterials Technology are not in DuPont's Exclusive Field nor in Nanosys' Exclusive Field.*
>
> *1.14 "Overlap Field" means the fields which fall within both Nanosys' Exclusive Field and DuPont's Exclusive Field."*

iii) 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.

> *"4.5 Each party agrees that it will not use any of its solely owned or jointly owned Collaboration Technology (or any associated solely owned or jointly owned Collaboration*

*IP) in the Overlap Field, except as may be agreed by the parties in writing. If either party desires to use any such Collaboration Technology and/or Collaboration IP in the Overlap Field, it may provide written notice to the other party, in appropriate detail, of the proposed scope of such use. Within [*** Redacted] days after such notice, the other party shall, by written notice to the original notifying party, respond either (i) granting permission for such use, or (ii) offering to negotiate the terms and conditions of such use, it being understood that neither party shall be obligated to enter into any particular agreement or arrangement, nor shall either party be obligated to enter into any agreement or arrangement that is inconsistent with its then current obligations to third parties. Any failure to so respond within this [*** Redacted] day period shall be irrevocably deemed permission for the originally notifying party to use such Collaboration Technology and/or Collaboration IP as proposed in the original party's notice. With respect to Collaboration IP for which permission is so granted, to the extent such Collaboration IP is solely owned by the party granting such permission, such party shall be deemed to have granted to the other party a worldwide, nontransferable (except as set forth in Section 11.7 below), royalty free license, only under such Collaboration IP, to design, develop, make, have made, use, import, offer to sell, and sell or distribute any product or item and to practice any method or process, in each case limited to the scope of use specified in* *the licensee's notice provided as set forth hereinabove."*

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

4) Grant-backs to Party 2 of improvements made by Party 1 after JDA term
    i) Should be limited to the extent that the improvement is needed for Party 2 to exploit the jointly developed technology in Party 2's Field of Use
    ii) Avoids one party of the 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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[1] The opinions expressed herein are those of the author alone, and this presentation does not necessarily represent or reflect the opinions or analyses of the firm of Oblon, Spivak, McClelland, Maier & Neustadt, PC, its attorneys, or its clients.
[2] Excerpts from contracts are reprinted with permission from Onecle, Inc. These and many other development agreements can be found on their website at http://contracts.onecle.com/type/57.shtml
[3] Drake v. Hall, 220 F. 905 (7th Cir. 1914).
[4] Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp., 149 F.3d 1309 (Fed. Cir. 1998).
[5] Schering Corp. v. Roussel-UCLAF S.A. 104 F.3d 341 (Fed. Cir. 1997).