

# Avoiding common pitfalls in collaborative research and strategic alliances

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# Common Pitfalls in Collaborative Research and Strategic Alliances: Overview



- The Allure and Risks of Joint Ownership
- Getting License Grants Right/Common Traps for the Unwary
- Handle Know How Carefully In the Draft and In Person
- Options – The Devil in the Details
- Reps & Warranties are not Just Boilerplate
- Indemnification and Limitations of Liability

# The Allure of Joint Ownership



- Who owns the IP arising from collaborative efforts?
  - Key issue for joint ventures, joint development agreements and other commercial collaborations
- “Background IP”
  - The intellectual property each party brings to the collaboration
- “Foreground IP” or “Developed IP”
  - The newly developed IP arising from the collaboration
  - All resulting IP or all IP developed jointly?
  - Seemingly fair solution: all such IP is jointly owned, but BEWARE

# Risks of Joint Ownership



- Treatment of Improvements
  - Carveouts for improvements are often desirable
  - Drawing Lines – improvements, new versions, new products
- Default rules neither ideal nor consistent
  - Rules vary by IP
    - US patents -- joint owners can exploit independently, without obligations to share royalties, but enforcement requires all joint owners to join
    - US copyrights -- joint owners can exploit independently, but have a duty to account.
    - Can be complex with software if fail to say each has the “right to exploit without duty of accounting.”
  - Rules vary by jurisdiction
    - UK, EU and Japan patents – can exploit but need permission of joint owners to license or exploit.
    - UK and Japan copyrights – need permission of joint owners to exploit or license.
- There are other options to joint ownership

# Getting License Grants Right: Common Pitfalls for the Unwary



- Poorly drafted licenses can invite disputes
- Some Common Licensing Traps for the Unwary
  - Distinguish Between Access, Rights to Use & Grants – IP, materials and technology are not the same
  - Licenses vs. Covenants Not to Sue
  - Know Thy Grantor and Limit Thy Licensees
  - Doing Business with Universities and Governmental Entities
  - Be Precise and Consistent

# Match Rights & Grants All IP and Technology are Not the Same



- Different classes of IP require different grants/rights
  - Patents -- Make, use, sell, offer for sale, import
  - Copyrights – Reproduce, perform, display, distribute and create derivative works
- Rights vs. Materials
  - Need to Secure v. Need to Keep Confidential
  - Need for Tech Transfer
  - Consider Escrow
  - Differences in Reps
- Should You Invite the Relatives?
  - Licensed patents are rarely just a specified patent or application. Include the whole extended family!

# Licenses vs. Covenants Not to Sue



- Covenants and license grants are not the same
  - Contractual vs. IP rights
  - Personal vs. running with the IP
  - Implications for transfer and bankruptcy
  - Increasingly similar if the contract is clear
- Beware of covenants not to sue in licenses
  - Neither Supplier nor its Affiliates shall assert any intellectual property rights or other proprietary rights or applications thereof against Company X, its Affiliates, distributors and customers (purchasers and users) for (i) the use, sale, distribution or other disposal of any Goods or (ii) the assembly, use, sale, distribution or other disposal of a combination of such Goods with other products.

# Know The Licensor and Limit Licensees



- Who is the “Licensor”
  - Do your diligence and be sure the Licensor actually owns the IP
  - Know what happens to your license in bankruptcy and manage the risks upfront
  - Should an affiliate grant a license?
    - Risks of viral licenses in acquisitions & changes of control
- Who is the “Licensee”
  - Affiliates, sublicensees or transferees



# Doing Business With Universities and Governments



- Universities and governments are key participants in collaborative and early stage R&D
- When partnering with universities or their faculty and students, make sure you know the university's policies
  - Review the policies
  - Obtain waivers upfront where required
  - Sometimes there are tail periods on rights
  - Keep in mind that Unis can be tough on patent rights and casual with know how
- Before accepting government funding, understand the conditions. In the US:
  - March in rights and Bayh -Dole
  - Necessary steps to preserve rights in both background IP and developed IP
  - Grants can come with strings– personnel, manufacturing and transfer
  - Confidentiality concerns – research and freedom
- The rules of the road for dealing with universities and governments will vary around the world. It is prudent to look into these before signing the deal

# Be Precise



- In license grants and definitions – every word can matter.
- Consider carefully before you compromise:
  - Reasonable
  - Commercially reasonable efforts
  - Consent not to be unreasonably withheld
- Carefully define scope of key terms:
  - Field(s) of Use
  - Licensed Product definitions
  - Applicability of payments
  - Skipped milestones.

# Handle Know-How Carefully In the Draft and In Person



- Most deals require know how sharing.
- Consider risks of contamination and loss of competitive business information
- Be willing to place limits on know how exchange such as firewalls and recipient ID
- How will an ongoing exchange of know how work? And is it necessary to achieve the commercial objectives?
- Consider how to pay for know how

# Options – The Devil is in the Details



- Options are commonly negotiated in collaborations
  - A mechanism for bridging a development/financial gap for additional products and rights
  - Way of locking in rights early
  - Can lock up rights for the foreseeable future
  - Helpful to deal with the unknown
- Be sure to flesh out the terms:
  - Will you have adequate time to make a decision?
  - Will you have access to adequate information to evaluate the option?
  - Is it a one shot deal, or is there a second bite at the apple?
  - Will other parties have options at the same time and if so, how will the competitive process be managed?
  - Make sure that the terms reflect your goals.
- Be attentive to how your bargaining position will change as product development progresses

# Representations and Warranties Are Not Just Boilerplate



- Develop a list of standard representations (“reps”)
- Add reps specific to diligence issues – do you have all the relevant IP?
- Consider your disclaimers carefully
- Beware of mixing in covenants
  - Covenants are promises to take (or not take) certain actions
  - Representations are statements about elements of the transaction
- Representations can come back to bite you



- Third party only or will it cover claims between the parties?
  - If it does not cover claims between the parties, what is your remedy?
- The legend of gross negligence
  - This is a very high standard – how frequently is it actually met?
  - If indemnity if needed/warranted, consider a lower standard of care (recklessness, negligence)
- Would you really want the other party defending with the counsel of their choosing?
  - Sometimes, it's better to control the litigation and seek costs from the other side
- Keep in mind usual recovery for breach of contract
  - You will likely not recover attorney costs and may not be made whole for all losses
- What is your risk tolerance?

# Limitations of Liability



- Consider the coverage you have (or don't have) through indemnity before agreeing to a limitation
  - This is a provision where your recoverable damages against the other party are capped
  - There may be exceptions (carve-outs) from the limitation on liability for gross negligence, willful misconduct and fraud (typical)
- Discuss the risks each party will be able to cover
- Consider insurance for risks that the other side won't cover
- Consider the exceptions you get for free
  - Breach of fundamental representations: good standing, enforceability, authorization to transact
- What risks are you willing to assume?

# Thank You



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