KILPATRICK TOWNSEND

KEY TAKEAWAYS

Interparty Considerations and Collaborations: Navigating IP Due Diligence and Joint Development Agreements with Third Parties

Kilpatrick Townsend recently held its annual **KTIPS** (Kilpatrick Townsend Intellectual Property Seminar). Firm attorneys led a day of interactive discussions with clients on the latest developments in intellectual property ("IP") law and their impact on patent and trademark strategies. Kilpatrick Townsend attorneys Farah Cook, Edgar Callaway, and Maha Khalaj along with Cecilia Andrews (Director of IP, Assistant General Counsel for Novelis) presented a session on **"Interparty Considerations and Collaborations: Navigating IP Due Diligence and Joint Development Agreements with Third Parties."**

In today's technology driven world, collaboration between companies is commonplace and virtually inevitable. Joint development projects, however, present unique risks with respect to the ownership and exploitation of IP and can often be part of the diligence items under review in acquisitions. Framing transactional due diligence and understanding the risks is critical to a successful collaboration and framing the parties' IP rights and responsibilities.

Ms. Cook's takeaways from the session, include:

1 The first step in any transactional due diligence is understanding the deal; and that means determining such baseline items as, what if any IP assets there are. If there are IP assets, are they owned or licensed, how were the assets developed or acquired, and are the assets material to the transaction.

2 All transactions should have a plan. The parties must understand any time constraints, establish the scope of due diligence, confirm what the deliverables are (i.e. written report, red flags, etc.), and finally, set a budget.

3 Finally, conduct the due diligence review with these aforementioned items in mind.

4 There are key items that all parties should consider before entering into a collaboration, regardless of whether a company is considering an acquisition or sale or looking solely to innovate. Joint development always sounds straightforward; however, the devil is always in the details.

5 Avoid "mission creep" by specifically and narrowly defining the purpose, each parties' contribution, and scope of the collaboration. It is also equally important to understand and define what is not being contributed.

6 Distinguish between technology and intellectual property rights ("IPR"). Failure to do so leads to ambiguity in the meaning of the contractual provisions and the parties' rights. The definition of technology or inventions should be limited to tangible and intangible things – e.g., process, techniques, know-how, algorithms, software, data, databases, protocols. Separately define IPR to include only legal rights, i.e., patents, copyrights, trade secret rights and trademark rights, and the registrations of, applications to apply for and priority rights based thereupon.

7 In addition to separately defining technology and IPR, also, separately grant rights to the technology and the IPR.

8 To avoid ambiguity and potential disputes, outline and identify three categories of technology/IPR:

- "Background IP": The technology/IPR that each party contributes to the development.
- "Developed IP": The technology/IPR created as a result of the collaborative effort.
- "Derivative IP": Modifications to or derivatives of Background and Developed IP created by the parties either solely or jointly.

With respect to each category, allocate each party's ownership, rights, and responsibility for the use, exploitation, protection, and defense of such IPR.

9 Joint development usually requires sharing technical information, which increases the risk that a party's trade secrets will be made public, or its trade secret protection lost. Thus, a disclosing party must take precautions to protect their trade secrets and other know-how, such as creating a written record via patent filings, disclosures and/or other forms of summaries that memorialize the background nature of the company's IP and prove it was created outside of the joint development agreement relationship.

10 Consider maintaining a clean team that continues the work of the company outside of the joint development relationship to maintain clean title to the resulting Background IP.

11 The most common form of IP allocation for Developed IP is joint ownership. Although there is a perception that this is a fair solution, in practice, joint ownership is fraught with pitfalls. Therefore, consider alternatives to joint ownership because the parties have great latitude in how to allocate ownership in a joint development agreement.

12 Such pitfalls include conflicting rights under default laws. For example, the rights of joint owners of a patent to exploit and enforce such rights differ from those of joint copyright owners and also vary by jurisdiction. Ignorance of these laws may create unwanted consequences and lead to disputes among the parties.

13 When contributing IP to a collaboration, consider including a "no guarantee of success" clause to project the contributing parties from claims that the contributed IP did not fulfill the intended purpose.

14 Every collaboration is different, be wary of using form agreements. Carefully consider and address how to allocate the parties' rights with respect to the ownership, enforcement, exploitation, and prosecution of the Developed IP.

15 Always consider and plan an exit strategy that details the parties' rights and obligations post-termination, particularly in the event that the joint development fails or strains the relationship of the parties.

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