

Technology Collaboration Agreements and JVs

Ron Moscona

Dorsey & Whitney (Europe) LLP

Pros and cons of collaborating

Opportunities	Risks
Access to market	Sharing technology
Sweating the IP assets	Creating a competitor
Share upside with little or no further investment and no risk	Lock-in of IP assets
Creating a revenue stream	Enforcement difficulties
Maintain control of IP	Ownership of improvements
Improve technology	Confidentiality risk

Bilateral collaboration/Joint venture entity

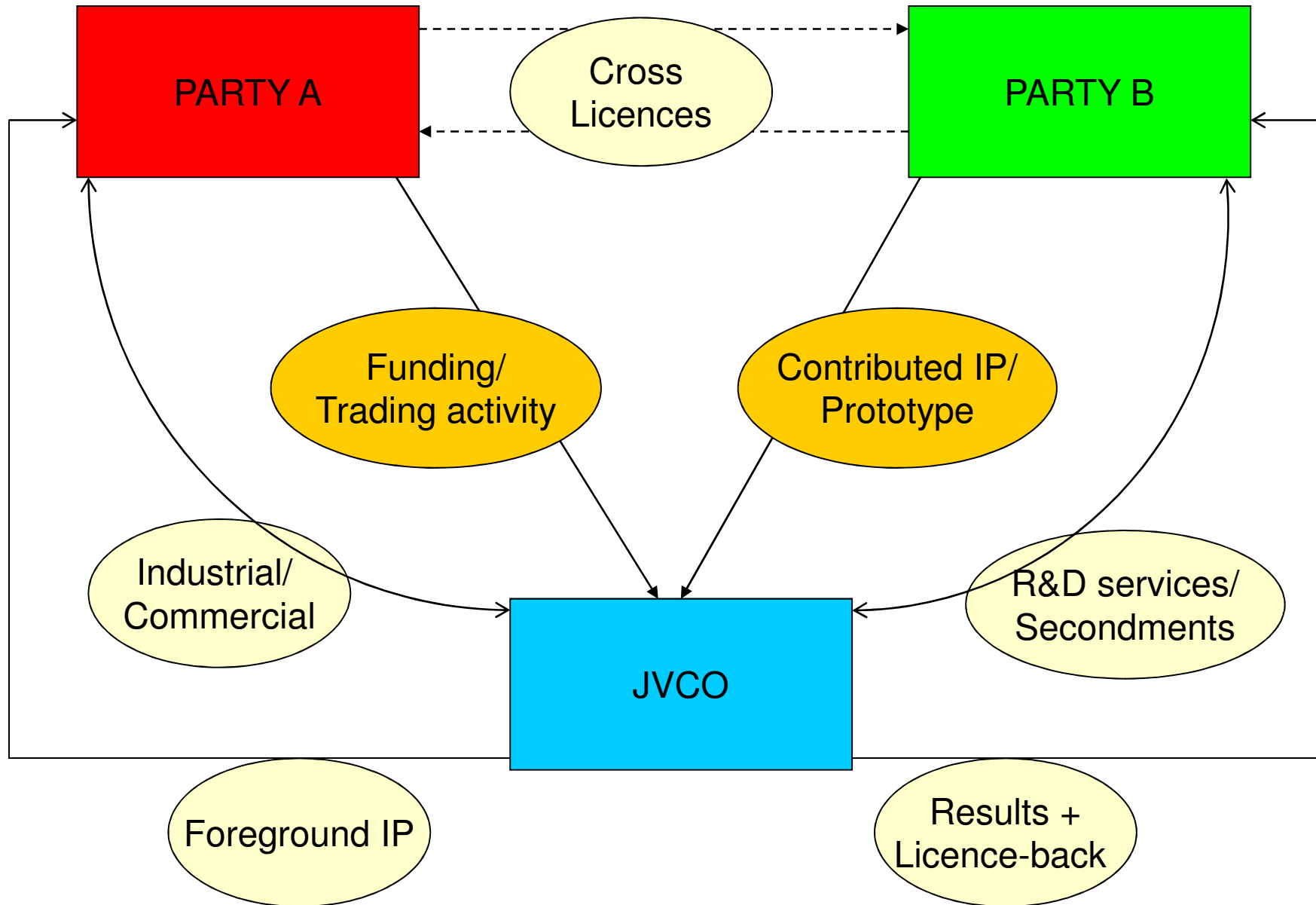
Relative independence	Commitment to partnership
Lower administrative burden	Set up costs and formalities
Lesser insolvency risk	Greater insolvency risk but more amenable to fund raising
Parties may use IP to compete against each-other	JVCo owns IP and parties cannot use IP to compete
Party with no IP relies on contractual benefits for return	Equity interest (and licensing provisions) ensure share of up side
No obvious exit route unless built into agreements	Exit through share sale/put option

Contribution of IP to collaboration

- Non-exclusive licence of background
- Exclusive licence/assignment of core IP to JVCo
- Exclusive cross-licence between parties of collaboration result, or
- Ownership of collaboration results by JVCo
- Non-exclusive licence-back (JVCo to parties) of results (possibly outside the JVCo field)
- Option/right of refusal to license additional/future IP in the field

Extracting value out of the collaboration

Technology developer	Commercial partner
Access to background IP for R&D	Commercialisation of products
Right to use foreground IP	Use of resulting technology
Commercialisation through JVCo/partner	Exclusive supply arrangements
Funding	Development services
Royalties/milestone payments	Beating the competition



Due diligence and warranties

- Financial resilience
- Title to/control of IP assets
- ‘Licensable rights’
- Freedom to grant exclusivity
- Third party conflicting obligations
- Freedom to operate
- IP infringement indemnity

Exclusivity

- Exclusivity for use of IP, of supply of components/services, of the commercialisation right
- Key to limit potential competition and to ensure value
- Could be used to allocate markets but great caution must be exercised
- Could be defined more narrowly than the licence itself
- Could be conditional or limited to a term
- Exclusivity can be revoked (instead of full termination) as a remedy for failure to meet sales targets/milestones

Exclusivity: how to mitigate the risk of under- performance

- Upfront payments
- Annual licence fees
- 'Best efforts' requirements
- Milestone requirements
- Minimum investment/spent requirements
- Termination/part termination exclusive rights

Key provisions in IP licences

Subject – Licensed IP	Pure patent; technology; information IP; brands
Scope of Licence	The extent, purpose and manner of exploitation of licensed IP
Exclusivity	Including scope, term and territory of exclusivity
Field	Technical area of use of licensed IP
Territory	Geographical scope
Performance	Financial targets, other milestones, best endeavours
Payment	Up-front, annual, milestones, royalties
Sublicensing	To whom and for what purposes – leakage

Reasonable and best efforts

- Best endeavours is demanding but not to bankrupt the business
- Reasonable efforts allows a party to spread resources on a number of competing projects
- It is not unreasonable to release resources prudently as the project progresses
- The more qualified the contractual obligation the less a court is likely to find a breach
- Schedules setting out in detail: business plan, work allocation/responsibilities/timetable/staffing (e.g, experts) etc
- Contractual requirements as to financial investment in project

Fees and royalties

	Pros	Cons
Royalties	Fair split of upside	Long term relationship; accounting; royalty base
Milestone payments	Reflects progress of project – increases with investment	Onerous, if not lined to sales
Annual fees	Regular and predictable	Arbitrary; overhead
Upfront fees	Clean break	No sharing of risks and opportunities
In kind (contracts etc)	Saves costs and generates synergies	Imprecise; potentially complex

Early termination

- Termination is a sledgehammer
- However, termination is the ultimate remedy
- Alternatives to termination:
 - licences to become royalty-bearing
 - licences to become non-exclusive
 - supply/commercialisation arrangements to become non-exclusive
 - termination for a particular territory/field of use
 - exclusivity to terminate for a particular territory/field of use
 - exclusive supply/commercialisation can be replaced by quotas

How to minimise insolvency risks

- IP can be held by a bankruptcy remote SPV or Holdco
- Parties to take a security interest in the IP
- Registration of licence/security interests
- Joint ownership option
- Significance of royalties (undervalued transactions/ preferences/ disclaimers of onerous assets)
- User right of licensee likely to survive licensor's bankruptcy but exclusivity right may not
- Choice of jurisdiction of JVCo

Ron Moscona

Dorsey & Whitney (Europe) LLP

- Moscona.Ron@Dorsey.com
- Direct dial: +44 (0)20 7826 4542
- Switchboard: +44 (0)20 7588 0800
- Fax: +44 (0)20 7588 0555