101 Joined at the IP: A Practical Guide to Joint Collaboration/Development Deals

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Faculty Biographies

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Alan P. Polaski

Alan Polaski is a senior intellectual property attorney for Intel Corporation's Digital Home Group. His responsibilities include developing legal strategies for the organization and leading acquisitions, technology transfers, and licensing negotiations, as well as providing general legal counsel to the group. Alan has been with Intel for more than 7 years.

Immediately prior to joining Intel as an attorney, Alan was an associate with the Miller Nash law firm in Portland, Oregon, working in both litigation and corporate licensing. Prior to a career in law, Alan was an engineer for Intel and Ford Aerospace.

Mr. Polaski served in the leadership of the Oregon State Bar intellectual property section, holding all positions, including chair of the section.

Alan received his engineering degree from Carnegie Mellon University, and his J.D. from Northwestern School of Law at Lewis & Clark College.

ACC Association of Corporate Counsel

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Agenda and Goals

- Review hypothetical
- Spot issues and questions to be addressed – 5-10 minutes per issue
- Focus on issues rather than on resolution in this particular hypothetical to aid value as take-away materials
- Questions and Follow-up

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HYPOTHETICAL JOINT DEVELOPMENT AGREEMENT

Background

Star Bright Corp. is a start-up company based in Sunnyvale, California. They've raised venture capital and are developing a new cold-fusion power supply. Their initial product focus is a small, flat, low-cost power supply for cellphones and PDA's, which will operate for either 700 (standby time) or 250 (talk-time) hours without recharging. Once that product is completed, they envision many other uses of the power supply – consumer products (laptop PC's, personal media players, camcorders, and the like); military applications; supplemental power sources for automobile accessories; and others. They originally licensed the basic technology from National University in Tel Aviv, Israel.

BigTek is a multinational corporation headquartered in Austin, Texas, and a leading manufacturer of, among other things, consumer electronic devices (e.g. MP3 players, GPS navigation systems) and personal computers, including laptop PC's.

Proposed Relationship & status of negotiations

Star Bright estimates that completing the development and establishing the first manufacturing plant with require about $200 million and three years. To have a chance at completing an IPO, they need to establish a joint development agreement with a large partner, not only to help fund the development, but also to provide technical assistance and technology, and to establish credibility in both the financial markets and their own customer markets.

Star Bright has been in preliminary discussions with BigTek for several months about a relationship. They've also been in discussions with two other companies with businesses similar to BigTek, although BigTek is furthest along and Star Bright believes that BigTek would be the best strategic fit. BigTek has completed its review of the technology and wants to discuss business terms.

Star Bright has proposed the BigTek will pay an initial license fee of $20 million, and that BigTek will fund the completion of the development program. Beyond that, they're prepared to agree to just about anything.

BigTek has responded with an initial set of issues they'd like to discuss, which will be the substance of our discussion today.

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1. Timing of development and payments

BigTek is demanding assurances that Star Bright complete the development within the agreed budget and schedule and is thus proposing that funding be staged based upon achievement of milestones.

Issues for consideration

1. Need for cash
2. Appropriate risk allocation
3. Administrative cost

2. Form of funding – NRE vs. Equity

BigTek is willing to fund the development, but it wants all (or at least some) of the funding to be in the form of an equity investment in Star Bright.

Issues for consideration

1. Appropriate ROI
2. Anti-dilution issues
3. Fairness

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3. Ownership of technology (existing and new)

BigTek wants the technology to be jointly owned. BigTek noted that if it provides technology for use in the development, BigTek would have to solely own all improvements.

Issues for consideration

1. Patent enforcement and prosecution
2. Coverage under pre-existing cross-licenses
3. Emotional attachment

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4. Designed-in Exclusivity

BigTek wants Star Bright to adapt its technology so that only BigTek products can use Star Bright-enabled batteries.

Issues for consideration

1. Free-riders and ROI
2. Long-term financial viability of deal
3. Pre-existing licenses
4. Field of use limitations and timing
5. Antitrust concerns

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5. Licensee manufacturing rights (2nd source)

BigTek insists that it have the right to grant license rights to manufacture and sell products using the technology.

Issues for consideration

1. Supply Continuity
2. Licensee control over 2nd sources
3. Achieving actual enabling
4. Royalties

6. Patent Indemnification by Licensor

BigTek is concerned about patents and wants Star Bright to agree that Star Bright will indemnify BigTek and its customers against patent infringement claims.

Issues for consideration

1. Cap, scope, and jurisdiction
2. Ability to indemnify
3. Fallbacks

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7. Governmental rights and/or restrictions on licensee's technology

BigTek has some concerns about Star Bight's License Agreement with National University, which it would like to discuss.

Issues for consideration

1. Governmental restrictions
2. Patent ownership/inventorship issues

8. Formality of Relationship

BigTek has taken all of the conversation about "partnership" at face value. It wants to form a joint venture, rather than just execute a development and marketing agreement.

Issues for consideration

1. Terminology issues
2. Advantages and disadvantages of formal JV

9. Change of Control and Escrow

BigTek would like to protect itself in the event of Star Bright's bankruptcy or a "change of control" by having Star Bright place its relevant IP in escrow.

Issues for consideration

1. Restrict access by competitors
2. Alternate protection
3. Bankruptcy trustee powers to void provisions

10. Covenant Not to Sue

BigTek is leery of letting Star Bright learn about its products and technologies and then it asserting patent claims against BigTek, so it wants Star Bright to covenant not to sue BigTek for patent infringement claims.

Issues for consideration

1. Fairness of CNTS
2. Scope and field of use limitations

Checklist (modify for your situation)

1. Staging of payments
   1. Staging of payments shifts risk of failure to develop to seller
   2. Does seller need up-front cash for start-up expenses?
   3. Managing and tracking milestone completions may be costly and time consuming, diverting needed resources from the development tasks
2. Form of funding – NRE vs. Equity
   1. Equity provides buyer with better ROI
   2. Seller may have anti-dilution problems to consider
   3. Owner may feel providing equity interest is not "fair"
3. Ownership of technology
   1. Joint ownership can present patent enforcement and prosecution complications
   2. Joint ownership of patents may subject technology to coverage under pre-existing cross-licenses, and thereby provide access to competitors.
   3. Owner may have emotional attachment to technology
   4. The parties may be able to achieve acceptable result through licensing
4. Exclusivity
   1. Licensor wants to prevent free riders and maximize ROI.
   2. Owner needs viable long-term financial model, which may require royalties
   3. Need to deal with any pre-existing licenses
   4. Defining field of use limitations and timing may be difficult
   5. Need to consider whether there are any antitrust concerns
5. Manufacturing rights for buyer (2nd source)
   1. Before planning business around new technology, licensor will want backup plans in to ensure continuity.
   2. Licensee may fear enabling a competitor, and want veto power or list of allowed/prohibited 2nd sources
   3. To achieve 2nd source availability, licensor may have to provide know-how, show-how – to a competitor.
   4. Licensor may ask for royalty payments on manufacture by 2nd source

Checklist (modify for your situation)

6. Patent indemnity
   1. Cap amount, coverage scope (combination claims or alone) and jurisdiction (US, worldwide, etc.)
   2. Does licensor has ability to indemnify to cap amount? If not, is it valuable to have their skin in the game?
   3. Consider whether fall-back is indemnity for trade secret and copyright infringement is enough
7. Government rights
   1. Any strings attached from government funding or R&D (i.e. OCS restrictions in Israel)?
   2. Patent ownership/inventorship issues to consider
8. Relationship formality
   1. Make sure terminology and not the structure is actually the issue.
   2. Advantages of formal JV may include liability shield, patent ownership clarity, and accounting
   3. Disadvantages of formal JV may include expense of creation and maintenance of entity and record-keeping
9. Change in control and Escrow
   1. Licensee may want to restrict ability of its competitors to access technology/patents through acquisition and want to consent to any assignment, but that may be inconsistent with Licensor's business strategy
   2. As a fall-back, licensee may consider a ROFR or springing rights
   3. Escrow often hard to practically achieve, because of what must be in escrow to achieve true enabling
   4. Actions triggered on bankruptcy may be voidable by trustee
10. Covenant not to Sue
    1. Licensee may not want its money used to create patents that are in turn used against it
    2. Licensor may feel CNTS is unfair and/or seek a reciprocal CNTS or patent license
    3. CNTS or license will have to address scope and field of use limitations, which are difficult to negotiate

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ISSUES FOR DISCUSSION

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