

MORRISON
FOERSTER

COLLABORATION AND STRATEGIC PARTNERSHIP AGREEMENTS

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Outline

1. Introduction
2. Structuring Options
3. Contributions
4. Intellectual Property
5. Governance
6. Customers and Commercialization of Output

Introduction – Motivations and Advantages

- Sharing risks, enhancing credibility and access to capital, increasing efficiency and reducing cost
- Access to existing R&D and manufacturing infrastructure, facilities and resources
- Access to complementary expertise, know-how, technology and market channels
- Faster and better access to markets and customers

Introduction – Risks

- Loss of control (e.g., over know-how and relationships)
- Dependence on partner; loss of autonomy
- Difficulties regarding exit strategy
- Cultural and social differences
- Conflicts or divergence of interests
- “Contamination” for trade secrets

Structuring Options – Joint Venture Entities

- Forming an entity for the collaboration
- Pros:
 - Convenient vehicle to own and license IP
 - Exit options (IPO, sale of entity)
 - Defined ownership and governance
- Cons:
 - Additional cost and time to establish entity
 - Reporting and compliance requirements
- Types of entities:
 - Corporation
 - Limited Liability Company (LLC)
 - Partnership

Structuring Options – Contractual

- Implementing the collaboration via contract without a new entity
- Pros:
 - Flexibility – quicker to set up and potentially more flexible
 - Each JV party directly receives its share of benefits
- Cons:
 - Lack of clear structure and identity which may affect both internal operation and dealings with third parties
 - Difficult to raise external finance as not legal entity and does not own assets
- Types of contracts:
 - Strategic alliances
 - Collaboration in research and development
 - Licensing
 - Joint marketing arrangements
 - Manufacturing and procurement arrangements
 - Simultaneous investment of one JV partner in the other

Contributing IP – Main Issues

- Distinguishing and addressing different types of technology
- Ownership of rights versus licenses to use
- Delivery – technology versus rights
- Termination of relationship and effect of bankruptcy

IP – Identifying Technology

- **Categories**

- Pre-existing (“Background”) technology – IP created before the collaboration
- Project (“Foreground”) technology – IP created in connection with the collaboration
- Independently developed (“Sideground”) technology – IP created during the collaboration but separately and independently of the collaboration
- Third party technology

IP – Identifying Technology (cont'd)

- **How to distinguish**

- Temporal: when developed – before or after the collaboration begins; but unrelated IP may be developed after collaboration begins
- Personal: who developed; but engineers may be assigned to relationship and other projects
- Subject matter: relating (primarily or exclusively) to the parties' collaboration; but multiple use problem
- Procedural: specifically identified in and developed pursuant to agreed project plan; but unforeseen developments

IP – Ownership and Rights

- **Ownership**

- Sole ownership by JV entity (if any)
- Sole ownership by either party; in which case licenses are needed between the parties
- Joint ownership by parties; applicable law may create problems regarding:
 - Control of prosecution
 - Consent requirements
 - Accounting duties
 - Maintenance and enforcement of IP rights

IP – Ownership and Rights (cont'd)

- **Licenses**

- Background IP
 - Remains property of contributing partner
 - Limited license of specific Background IP to JV entity or other partner
- Project IP
 - If JV owns → license to all partners
 - If one partner owns → license it to other partner or the JV
- May divide up joint IP portfolio among the partners
 - Based on vested interest of each party
 - Providing cross licenses and distributing the costs
 - Subject to restrictive covenants (e.g., to prevent disclosure to competitors)
- Future (post relationship) improvements or developments?
 - Improvements solely created by the JV
 - Owned by JV entity and licensed to original contributor
 - Owned by original contributor and licensed to JV entity
 - Improvements created by a partner in contractual JV
 - License to other partner

IP – Ownership and Rights (cont'd)

- **Other Licensing Issues**

- Field and other limitations; exclusivity; only in connection with relationship etc.
- Broader cross-license arrangements
- Specific issues in trademark licensing (quality control)
- Third party licenses (in-licensing/out-licensing)

IP – Termination

- **Effect of termination of relationship on rights**
 - Perpetual or limited license
 - Competition of the parties in same field
 - Access to improvements and future developments
 - Technology transfer, training to enable partner to pursue independently

Governance

- **If JV entity:**
 - Corporate entity has default governance (board, officers)
- **Whether or not there is a JV entity:**
 - Steering groups or committees
- **Issues to consider:**
 - Identifying R&D projects, setting priorities
 - Planning, implementing and monitoring R&D process (schedule, specifications, work allocation, etc.)
 - Budget and allocation and approval of costs
 - Evaluating, testing and acceptance of deliverables
 - Marketing strategy
 - Dispute resolution

Governance (cont'd)

- **Interaction with consolidation question**
- **Minority protections**
 - Shareholder/partner level
 - Board level
- **Control of Board**
- **Management**
 - Appointment of senior officers (CEO, CFO)
 - Special officers: statutory auditors in Japan
 - Independent managers vs managers from JV partner
- **Deadlock resolution**
 - Escalation
 - Controlling party prevails, other party has the right to sell
 - “Shotgun” – each party has right to bid (with floor); party with highest bid / valuation wins
 - Other buy/sell provisions
 - Liquidation

Customers and Commercialization of Output

- **Manufacturing and Sales**
 - Will both parties manufacture and sell?
 - Will parties coordinate procurement?
 - Marketing
 - Market or customer allocation?
 - Joint marketing and customer approaches
 - Branding
 - Non-compete clauses
 - Marketing efforts, sales targets, minimums, etc.

Thank you.

Please see www.mofo.com for more information.



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Education

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Kevin Jerome Madden

Kevin Madden advises private equity sponsors and public and private company clients on a broad range of transactions, including mergers and acquisitions, leveraged buyouts, growth and venture investments, and divestitures.

He represents clients operating in a range of industries including technology, life sciences, health care, food, and manufacturing.

Prior to joining Morrison & Foerster, Kevin practiced in the Boston office of another international law firm, where he advised private equity sponsors and public and private companies on corporate and transactional matters.

REPRESENTATIVE TRANSACTIONS

- Abry Partners, a leading Boston-based private equity firm, in connection with the sale of its portfolio company, Music Reports Inc., to MidOcean Partners, a New York-based alternative middle market private equity asset manager.
- The equity holders of N2 Biomedical, a provider of coating and surface treatment for medical and dental applications, in its sale to Ampersand Capital Partners, a Boston-based private equity firm.
- An individual seller in his sale of Gerawan Farming, a family peach farming business, to Wawona Packing Co., a fruit and packing company that is backed by Paine Schwartz, a private equity firm.
- Palo Alto Networks, an internet and software security company, in its acquisition of Zingbox, an IoT cybersecurity company.
- Ethos Capital on its acquisition of Public Interest Registry (PIR), a nonprofit generic top-level domain registry that operates multiple domains, including one of the world's largest (.ORG), and all of its assets from the Internet Society. (Terminated)
- Klein Tools, manufacturer of professional grade tools and related equipment for tradespeople, in its acquisition of Ergodyne, maker of safety work gear, from its parent company Tenacious Holdings.

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