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NEGOTIATING CONTRACTS: A  
CRITICAL ENTREPRENEURIAL  
SKILL

Matthew Karlyn  
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# MoFo at a Glance

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# Matthew Karlyn



## Education

Union College (B.A., 1994)

Temple University (J.D., 1997)

University of Chicago  
(M.B.A., 2004)

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Matt Karlyn has 23 years of experience in working with companies in the healthcare, pharmaceutical, medical device, and technology industries on a wide range of commercial life sciences, licensing, and technology transactions.

Matt's clients range from Fortune 100 companies to start-ups, and he regularly advises companies on matters involving IP commercialization, complex collaboration transactions, licensing initiatives, subscription-based economics, and business transactions related to the procurement, development, commercialization, and use of technology and life sciences products. He has also worked with a number of clients on corporate transactions including mergers and acquisitions, as well as private equity and venture capital financing.

Life sciences clients, including pharmaceutical, medical device, and healthcare companies, rely on Matt for his breadth of knowledge in licensing, collaboration, and commercialization strategies across a wide range of transactions designed to strengthen operations and maximize value. Matt's clients come from sectors across the global economy and include emerging companies, privately held companies, and many of the world's biggest brands.

Matt has broad experience with commercial transactions and agreements in the life sciences space, including:

- Intellectual property and technology licenses
- Collaboration and development transactions
- Commercialization agreements
- Supply and manufacturing transactions

# Contracting Basics

What is a contract?

- Confirms an understanding.
- Helps identify issues that were not raised in a letter of intent or term sheet.
- Helps identify areas of disagreement or ambiguity. Example: Is “we will stand behind our affiliates” the same as a guarantee?
- Forces the parties to consider, anticipate and provide for legal and practical contingencies.
- Serves as a map for the ongoing relationship when those involved in the negotiations are not the same people who must monitor performance or interpret the contract in the event of a dispute.

# General Drafting Goals

- Tailor the contract to the transaction; do not rely on a form
  - When using precedent ensure it is reviewed to conform to your particular transaction requirements
- Understand the purpose, listen, ask questions and draft narrow exceptions
- Precision
- Consider whether ambiguous terms have advantages or disadvantages. Example: “Licensee shall use its best efforts to obtain all necessary governmental approvals” versus “Licensee shall use such efforts to obtain all necessary governmental approvals as are consistent with efforts made by businesses of similar size and resources in a similar circumstances and context to achieve a particular result in a timely manner, but shall not require a Party to take actions that would be commercially unreasonable to such Party in the circumstances.”

# General Drafting Goals

- Generally, it is better to control the document by preparing the first draft
- When a concern is raised by the other side, consider whether you might be negotiating against yourself by submitting a proposal
  - Has the concern been clearly articulated? Is there a risk of saying too much by submitting the first proposal?

# Avoiding Common Pitfalls

## Remember which role you are in

- Certain provisions benefit the licensor, but not the licensee
- Example: Requiring that all confidential information be marked “confidential”

## Carefully consider the effects of termination

- What provisions should survive?
- What confidential information should be returned or destroyed?
- Is a transition period needed to sell inventory?
- Does the licensee have the right to continue using know-how after the corresponding patent expires?

# Avoiding Common Pitfalls

Do not confuse “technology” or “intellectual property” with “intellectual property *rights*”

- “Technology” or “IP” is the deliverable -- the subject matter of the intellectual property protection
- IPR (rights) are the legal rights that apply to the subject matter

Understand who owns the intellectual property

- In general, the developer owns what it develops in the absence of a written assignment
- Under U.S. law, each co-inventor holds an individual interest in the patent as a whole
- Consequently, a co-inventor who has not assigned his rights can independently assign or license his rights under the patent to any third party



# Avoiding Common Pitfalls

## Consider whether assignability is desirable

- Check assignment clause

- When selling assets, being acquired or reorganizing, for example, a company may need to assign associated contracts. In contrast, a licensor may not want a licensee to assign the agreement (and license) to unspecified third parties, especially competitors.
- Are any exceptions needed for future contingencies (e.g., assignments to affiliates)? If yes, also carefully review the confidentiality provisions if you are the receiving party. Consider whether an assignment to a subsidiary or other affiliate should remain in effect if such entity ceases to be affiliated with licensee, particularly if its shares were acquired by a competitor of licensor.

### Examples:

- Neither party may assign this Agreement to a third party without the express written consent of the other party.
- Neither party may assign this Agreement to a third party without the express written consent of the other party (which consent shall not be unreasonably withheld).
- Neither party may assign this Agreement to a third party without the express written consent of the other party (which consent shall not be unreasonably withheld); except [to a subsidiary or affiliate] [or] [in connection with a reorganization, merger, transfer of all or substantially all the assets of the business to which this Agreement relates].

# Avoiding Common Pitfalls

## Consider the need to sublicense

- Licensors generally seek to prohibit sublicensing, but one should carefully consider whether one needs (or needs to block) sublicensing rights

## Issues to consider when license grant extends to subsidiaries

- May a subsidiary continue exploiting a license if and when it ceases to be a subsidiary of licensee?
- The parent company (licensee) should covenant that it will cause its subsidiaries to comply with the terms of the contract.

# Joint Development Agreements

## Which party should control enforcement, prosecution and/or maintenance of Joint Intellectual Property Rights?

- Often depends on size of collaboration. In larger collaborations, it is not uncommon to create a joint committee or task force to deal with these issues as they arise. In smaller transactions, one designated liaison from each party may suffice. Alternatively, such decision making authority may vest in licensor or licensee or a combination thereof, depending on the portion of technology at issue. Parties should address allocation of costs.

## Which party should control defense-related issues?

Defense often (i) follows the holder of an exclusive license, (ii) is agreed by the parties in the contract and (iii) requires the cooperation, or approval (*e.g.*, in case of royalty abatement and/or settlement decisions), of the other party.

## Power of attorney

- Include in event that party charged with enforcement, prosecution, maintenance and/or defense fails to perform its obligations.

# Joint Development Agreements

## Future Opportunities

- If opportunities for future collaboration have been identified, consider a right of first offer (“RFO”) or a right of first refusal (“RFR”). A holder of a RFO may make an offer at its election whereas a RFR may be exercised when the granting party has an offer from a third party and gives the holder of such right the opportunity to match the offer before closing the subject transaction with such third party.

## Consider whether it is advantageous to negotiate a single comprehensive joint development agreement

- E.g., will it delay the commencement of time sensitive development activities? If yes, consider finalizing certain commercialization terms by a specified point in the development process. Such approach, however, involves a risk that either (i) the parties will never agree on such terms or (ii) the other party will use this as an opportunity to discontinue the joint development.



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