

ARTICLE 04

TECHNOLOGY TRANSFER DEALS

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SECURING IMPORTANT, BUT OFTEN FORGOTTEN, INTELLECTUAL PROPERTY TERMS IN TECHNOLOGY TRANSFER DEALS

You have worked hard for a long time to get to this point. Whether your long days and nights were in a lab, a workshop, an operating room or a boardroom, you have created something of value, and now it is time to take the next step.

For many, that next step takes the form of a technology transfer deal, such as an acquisition or license of intellectual property, a joint development agreement or another intellectual property focused collaboration with another party.

Bit by bit, deal terms start to take shape; however, regardless of your type of deal, there are lesser considered deal points that can have a massive impact on both your immediate and long-term goals. Paying attention to these

additional considerations can make the difference between having your hard work pay off or creating more hard work for yourself in the future.

Data Rights

In real estate, the old saying is there are three things that matter: location, location, location. In intellectual property today, it is arguably: data, data, data.

For some companies, the importance of data is obvious. Consider a wearables device company that wants to partner with a health plan so that members of the plan can receive guidance on how to improve their health. The data that will flow from the member using the device to the

device company will inevitably be a focus of the parties in developing the terms of their technology transfer agreement.

Now consider a company that is working its way through FDA approval for a potential new drug, but has an opportunity to receive money from another party by granting a non-exclusive license. Data may not jump out as an important aspect of the deal, but data from various studies the parties may perform could be helpful to either com-

pany to gain regulatory approval or to improve the drug and its use. Such data is most helpful if the parameters of the studies are well defined and mesh with relevant regulatory requirements for using clinical studies. The parties could define those parameters in the agreement itself, or include in the license agreement a regulatory clause, requiring both sides to form a regulatory committee, and designating authority to that committee to develop clinical study requirements for both parties.

In real estate, it's
location, location, location.

In intellectual property today,
it's **data, data, data.**

Who Controls Prosecution and Enforcement Decisions Related to Intellectual Property

Intellectual property control issues in technology transfer agreements typically are one of the most complex and dense parts of well-drafted agreements while also being one of the least discussed by parties at the outset of negotiations.

For example, consider a joint development agreement where both parties are sharing current intellectual property and resources with each other in the hopes of developing new intellectual property. Often the default in these situations will be that each party will own what they came to the table owning, and both will jointly own whatever results from their collaboration, but this just scratches the surface of issues.

The parties should start with understanding the type of intellec-

tual property that is to be created in the joint development, and then decide how best to divide control over protecting that intellectual property. Keeping trade secrets will require restrictions on disclosure, impacting things like publication rights and contracting with third parties. For patentable inventions, the United States Patent Office will only want to hear from one voice, but some patents or patent claims will be more important to one party than another. Parties may also have differences of opinions on a wide range of issues from choice of patent counsel to whether and how to defend a challenge against a patent or to enforce a patent, all having serious ramifications as to the scope, validity and value of a patent as well as who shoulders related costs.

The solution to these issues is often a web of contractual language that runs through a series of contingencies that fit the deal, often giving one party the right to take certain actions in the first instance, and if that party does not, giving the other party a right to step in and take that action. Expense sharing, reward allocation and even intellectual property ownership shifting can be a part of these clauses. For more daily decision making, often an agreement will establish a committee made up of party delegates, either to make binding decisions or just recommendations to the parties.

BREAKING A TIE

At the beginning of a deal, parties often like to make “agreements to agree.” This is a way of punting an issue for a later date by trusting the parties will be able to agree on open terms sometime in the future. The parties or the committees mentioned herein may also reach an impasse on a number of issues.

A common solution to deadlock is to escalate the matter within each party, requiring meetings between executives to resolve the dispute. If the meetings do not resolve the issue, a next step is often a forced non-binding mediation with an outside mediator. Failing a resolution at mediation, for some critical issues that simply cannot be left unresolved, the parties may opt to include provisions in the agreement to allow an outside, neutral third party to make a binding decision for the parties rather than suffer through litigation or a deadlock delay that destroys the value of the deal.

Locking in Everything, and Everyone, You Need

The practical side of a deal can be lost in the negotiation of perceived major deal points. This syndrome is akin to worrying so much about making your flight that you forget to pack your shirts.

Key components to a deal may be the supply of material, the transfer of know-how and, perhaps most often overlooked, the locking-in of key personnel.

Parties will too often negotiate a license or other deal terms revolving around only one form of intellectual property, typically patent rights, and forget that surrounding most patents is a cloud of other intellectual property that should be part of the technology transfer. The types of

intellectual property can greatly alter the main terms of the deal, such as royalties and the term of any license.

For example, while patents will expire and running royalties should not be required post-expiration, trade secrets may be kept indefinitely and be subject to ongoing royalty obligations.

To resolve these issues, sometimes an entirely separate side agreement with key individuals is necessary, requiring them to offer their services at specific rates. To account for trade secret rights in addition to patent rights, parties who exchange trade secret information as well as patent rights will either have a stepped-down

royalty rate after the patent expires to account for the remaining value of just the trade secrets, or they will provide a perpetual, royalty-free license to the trade secrets after the patents expire.

RECAPTURING RIGHTS

Most parties transferring rights to another party expect those rights to be used, not shelved. However, many times parties focus on royalty rates for sales of products while failing to set milestones for bringing a commercial product to market and then minimum royalties to ensure proper commercialization.

Recapturing transferred intellectual property if milestones and minimums are not met can be helpful mitigation for a deal that just did not meet expectations. Conversely, licensees subject to such terms often forget to negotiate wind-down provisions to allow themselves to exit a deal slowly, typically by selling off stock and gracefully exiting the market. Recapture rights need not be all or nothing in a deal. Recapturing specific fields of use, geographic areas, or converting an exclusive license into a non-exclusive license are all ways to continue the technology transfer deal in some form.

YOUR EXIT STRATEGY

A successful technology transfer deal requires you to take the long view, including considering your “exit strategy” for moving on from that deal or even your current company. Here are a few examples of ramifications to certain common, but often under-considered, deal terms:

- Non-exclusive licenses generally demand less royalties than exclusive licenses and diminish the value of the ownership of intellectual property. When granting a non-exclusive license, consider whether the value gained by that license and potential other such licenses is worth the value loss to a sale or an alternative exclusive license. When considering an exclusive license, decide whether it is truly exclusive even as to shut the licensor out of the market.
- Non-assignability clauses often sneak into boilerplate agreement terms, which may be important to parties who wish to control their business partners, but may also delay or endanger any merger or acquisition of a party.
- Information and materials sharing clauses, ensuring your business is not interrupted by the other party holding information or materials hostage, may be extremely important. Such clauses vary from immediate and regular information sharing throughout an agreement to appointing a third-party escrow agent to hold certain information in escrow to be released upon certain conditions.

AUTHOR CREDITS



David Axtell, an attorney at Stinson Leonard Street LLP, focuses his practice in the areas of intellectual property and information technology. He represents clients in both technology transfer deals and litigation. The technologies at the center of his practice involve a variety of industries, such as healthcare, biotech, medical devices, software, hardware and high-tech services.



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Contact Us

While no deal can at the outset consider all the possible terms that should be negotiated and baked into an agreement, taking time to consider the key issues of any technology transfer deal can help you sleep easier at night, and maximize the benefits you receive from the deal.

Contact David Axtell, Tricia Kaufman or Sheva Sanders for more information on technology transfer deals.

