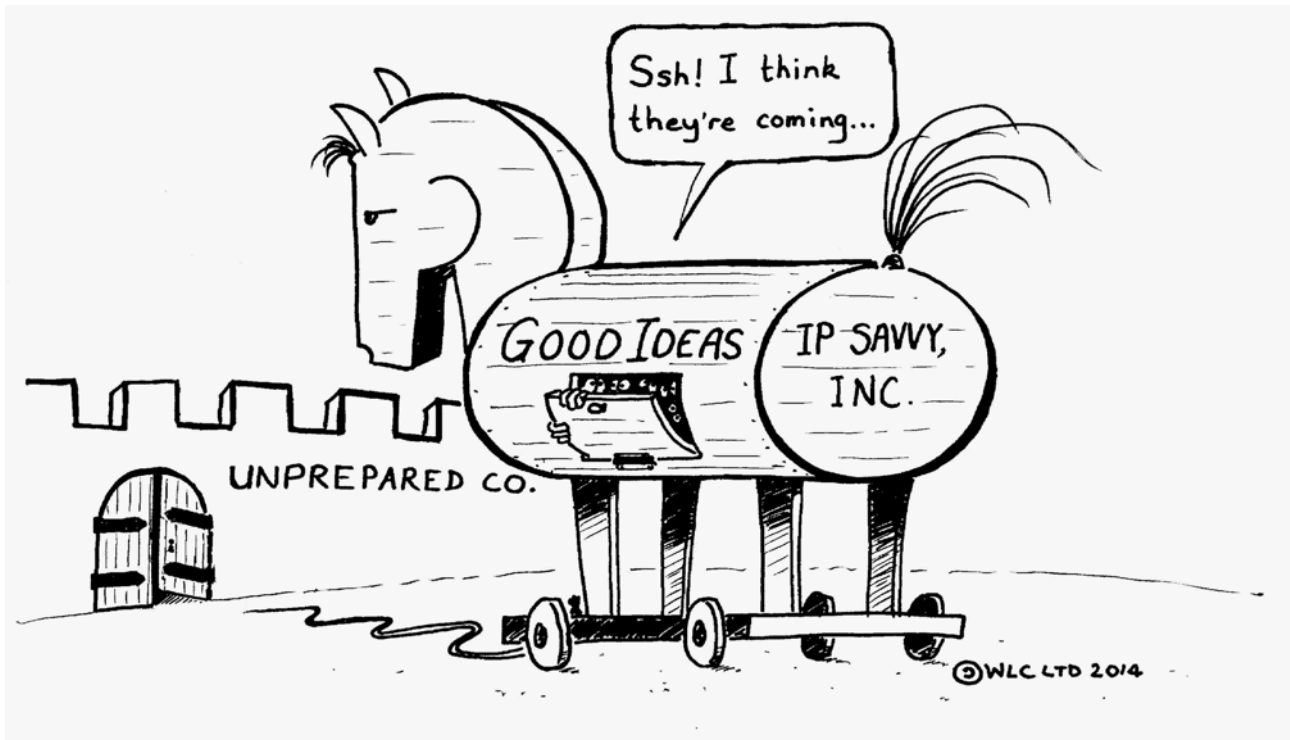


The Next Big Thing: Traps, Trojan Horses, and IP



Society today has an insatiable appetite for innovation for which there appears to be no known cure. We simply can't get enough of the stuff: the latest smart-phone, must-have App, wonder-drug, labour-saving gizmo, piece of wearable tech, and so on. This continuous demand for the latest, greatest thing that is better, cheaper, faster, or more effective than the previous bunch of stuff we bought is ultimately what drives most, if not all, of commercially backed innovation in the marketplace today.

Lured by the prospects of significant returns, and often against a back-drop of increasing pressures from stakeholders for year-on-year economic growth, many companies engage in the innovation process in pursuit of the 'next big thing'. That however is only the beginning of what can prove to be a long, expensive, and resource-hungry journey. The goal of matching *actual* market demand with a new product that performs well enough and that can be manufactured, packaged, shipped, distributed, and sold in sufficient volume at a price/cost differential that doesn't bankrupt the company is far from easy to achieve.

The commercialization path from idea to money is ultimately a process of risk management. Consequently companies will often employ business analysis tools and techniques, such as *internal rate of return* (IRR) and *technology readiness levels* (TRLs), to help figure out which are the potential winners from a range of candidate ideas and therefore decide where they should spend their limited R&D dollars and focus their resources. Failure to manage this risk adequately can dramatically reduce a project's IRR or even stop it dead in its tracks altogether.

There is nothing new here, of course. However, implicit in this observation is the *time to market* – any delay in getting a new product to market is revenue irretrievably lost or, worse still, could allow a competitor to enter the market unchallenged and so snatch away the first-mover's advantage. Compound this with the fact that many R&D projects never actually make it to market and the need for a well-managed, well-resourced development process capable of delivering a financial return in as short a timescale as possible becomes all the more acute.

As the economy has shifted over the past forty years or so from its traditional industrial base to a knowledge base, so the currency of *intellectual property* (IP) has risen in importance as well as the commercial value of IP as an asset class in its own right. Increasingly companies have come to recognise that they don't necessarily have all the skills and resources within their own organisation to complete the development process within a commercially realistic timeframe. Conversely, seeking the expertise and technologies of others outside the organisation has steadily become an attractive route to increasing the probabilities of launching a new product on the market at the end of the development process and also reducing the time that it takes to get there. This so-called *Open Innovation* (OI) model of cooperative development, however, is not without its own set of risks for the unwary or unfamiliar.

As a way of working, OI, in all but name, has actually been around for quite a long time. Indeed, when asked why he had so many assistants, Thomas Edison famously replied '*If I could solve all the problems myself, I would*'. In its simplest form, subcontracting-in design and engineering expertise has been a staple component of most development companies' extended resources for many years. However, with the increasing importance and value of IP as a commercial asset, potentially concerning issues can arise when it comes to ownership and control of IP created within a cooperative environment.

Let's take the example of subcontractors. It is quite possible that the terms of the contract will say something along the lines of '*all IP created by [subcontractor] will be owned by [contractor]*'. However, this in itself is not a formal assignment, merely a statement of something that hasn't happened yet. There needs to be an actual statement of assignment, such as '*[subcontractor] agrees to assign and hereby assigns to [contractor] all IP created under this Agreement*'. This is particularly important when it comes to *unregistrable IP* such as copyright material since, unlike patents, registration is not required. The legal right to copyright comes into effect automatically and is owned by the author. In that respect, for a copyright assignment to be effective, the contract also has to be signed by the copyright owner, it is not sufficient for an agency to sign the contract on behalf of the subcontractor if the agency is not in fact the owner. The same issue also arises now in the UK in respect of *unregistered design rights* created by a commissioned designer – the designer automatically owns the unregistered design rights by default, not the commissioner. This issue is of less concern in respect of employees. If an employee creates copyright material as part of his or her employment then, generally speaking, such copyright is owned by the employer, there does not have to be an explicit assignment clause in the employment contract.

More generally, cooperation partners could be almost anyone from individuals to universities, customers to suppliers, or design houses to technology vendors, anyone in fact who can provide a key technology or expertise to drive the project forwards. In this circumstance it is absolutely essential that IP ownership and use of the resulting IP rights is agreed in writing between the parties before any inventions are created or, at the very least, before any costs are incurred filing a patent application. Failure to do so could result in a subcontractor owning a core piece of IP in your breakthrough invention and a disproportionately advantaged negotiation position by way of remedy. However, one of the first questions to address before any of this can happen is: who do we work with?

In the run-up to undertaking a cooperative development, it is not uncommon for a party to enter discussions with a number of potential partners under the protection of a mutual *Non-Disclosure Agreement* (NDA). The NDA is possibly one of the simplest, most commonly used, yet often overlooked of commercial contracts between nascent development partners. NDAs are often perceived to be a safe-harbour in which to hold confidential discussions and, at a straightforward business level, they are. However, when those confidential discussions start to include elements of IP, then the commercial stakes begin to rise. In principle the NDA is a legally binding agreement between willing parties to exchange certain confidential information, including IP, in order to achieve some specified purpose. Often the purpose will be to decide whether or not the other party has sufficiently attractive technology to engage in a future joint development project.

Fundamentally NDAs place obligations of i) non-disclosure and ii) non-use on the receiving party in consideration of receiving the disclosing party's confidential information. Owing to their generally broad definition of what constitutes confidential information, and the fact that most companies often fail to keep accurate records of what confidential information was actually received under which agreement, NDAs can present a significant risk of contamination for the receiving party. The receiving party is then in the position that it can only use the confidential information with the disclosing party's approval until the attaching obligations of confidentiality and non-use expire. Unless the receiving party can demonstrate that the information received is in fact not 'confidential', as defined in the NDA, then the seemingly helpful discussion and related disclosure can rapidly become something of a Trojan Horse.

Such is the importance placed on IP in commercial contracts that the seemingly innocuous NDA is being used increasingly by unscrupulous in-house legal teams as a vehicle for potential IP land-grab. Clauses to the effect of assigning any and all rights and ownership to any IP derived from the disclosing party's confidential information have far-reaching legal consequences and should only be accepted in extreme and carefully defined circumstances. Where possible companies should try and use their own NDA template or, failing that, make sure that the other party's template is sufficiently well scrutinized for hidden IP traps by someone who knows what they are looking for.

Having identified the best partner to work with, the next step is to agree the Joint Development Agreement (JDA). Most aspects of the JDA will concern the project itself: the tasks, responsibilities, milestones, deliverables, timescales, etc. An essential and one of the most critical issues to resolve is ownership of the IP that will arise during the development, the so-called *Arising IP*. In the absence of any formal agreement to the contrary, the common law position is that an invention is owned by the inventor(s), irrespective of what considerations may have been exchanged. If the development partner creates an essential invention then they could end up in an advantageous negotiation position prior to commercialization leveraged by the IP that they have created on the project.

Deciding who should own Arising IP can be a difficult issue to resolve. Companies will often seek to own (and therefore control) any IP related to their business or technology, recognising that the other party may have similar desires of IP ownership. Ownership can be something of an emotive subject but often the *licensed rights* to exploit Arising IP in a certain field and/or territory are actually all that are required for commercialization. In a customer-supplier collaboration, for example, the IP-savvy supplier may secure an exclusive supply contract leveraged by agreeing to assign its Arising IP to the customer if and only if the parties enter a formal supply agreement.

One of the fatal traps that negotiating parties often opt for, and legal teams (wrongly) adopt for contractual simplicity, is the seemingly ‘easy and fair option’ of jointly owned IP. Aside from the parties’ differing needs during the patenting process of what to file where, when, and who pays for what, jointly owned IP can result in requiring joint decisions for any and all disposals of the IP rights, including licensing. The value of jointly owned IP can be diluted significantly if a licence is available from both owners. In some countries both owners are required to join as plaintiffs if a jointly owned patent is to be asserted. Absent a common interest to sue, a jointly owned patent is therefore basically worthless. As far as financial reporting is concerned, it can be almost impossible to put a fair and reasonable value of jointly owned IP onto the company’s balance sheet, because the other owners often have divergent commercial interests.

In summary then, IP is increasingly being recognised as an important and valuable asset between collaborating parties at every stage of the development lifecycle. Those companies that embrace the skills of an experienced IP strategist to leverage that value to create a competitive advantage will ultimately secure higher financial returns from their investments than those who fall prey to the traps and Trojan Horses lying hidden in the development path before them.