



# Getting the IP right in collaborations

## OPEN INNOVATION: COLLABORATE TO INNOVATE

In our recent and well-received publication "Open Innovation: Collaborate To Innovate" we shared our insights into the world of open collaboration assisted by contributions from a wide range of our clients. As part of our analysis we highlighted the main legal considerations in relation to the intellectual property issues that arise in restructuring a collaboration arrangement. In this document we take a deeper dive into some of the principal intellectual property issues and then set out some practical steps to consider when embarking on open innovation projects.

In any collaboration, the parties will need to consider the legal issues that may arise and how the collaboration impacts on existing legal rights and arrangements, how the rights and obligations of the parties created under the collaboration are to be dealt with, the arrangements for exploitation of the results of the collaboration and how the parties will operate following any termination of the collaboration.

### Prior to the collaboration

#### Confidentiality and non-disclosure agreements

Before any organisation decides to enter into any open innovation venture, it will undertake exploratory discussions with potential collaborators. Given the preliminary nature of such discussions, it is unlikely that there will be any appetite to involve lawyers. However, even at the initial stages it is wise to consider the implications of revealing to a third party key confidential information, such as potential avenues of investigation or the amount of work already undertaken.

Whilst there are common law protections against misuse of certain kinds of confidential information, it is advisable to have contractual protections in the form of a confidentiality agreement or non-disclosure agreement

(**NDA**). Such an agreement does not need to be long or over-complicated but it should impose (usually mutual) obligations on the parties to maintain the confidentiality of any information and documents disclosed during preliminary discussions and also not to disclose the fact of the discussions themselves. The agreement should also provide for the return of any document on the conclusion of discussions, if there is not going to be any collaboration.

#### Memorandum of Understanding (MOU) or Heads of Terms

If the parties agree that there is potential for an innovation project then, even though substantive negotiations, further due diligence and the drafting of definitive agreements are still to take place, they may try to capture in writing the overall intention and spirit of the proposed arrangement and some of its key terms in writing in a Memorandum of Understanding or Heads of Terms.

An MOU shows that the parties have serious intent and may have moral force, but in England an MOU on its own does not legally compel the parties to conclude the deal on those terms or even at all. There is no standard content or format for an MOU. The aims of an MOU are to focus the parties' intentions to avoid future misunderstandings and to provide

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a cornerstone for the steps to be taken on the way to signing a formal binding agreement. However, the preparation of an MOU can occasionally stall the process over points of unnecessary detail which can increase the length and cost of the negotiations and delay preparation of the definitive documents. If the parties are committed to the project, then an immediate move to drafting the project agreements may be preferable. An express term should be included that there is no intention to create legal relations or to be bound by the MOU. In some jurisdictions a MOU can create a legally binding agreement.

### Exclusivity

The parties may also consider entering into some form of exclusivity agreement pending the finalisation of the relevant agreements, so that neither party will enter into similar negotiations with a third party during the exclusivity period, thereby protecting the time and money spent in ultimately reaching agreement.

### Contractual documents

There will never be a one size fits all solution for the contractual and legal documentation required to govern the relationship between the parties to an open innovation project. A staged approach is often a good idea with the parties setting realistic milestones at which

they will take stock and if the relevant target or objective is not met, setting out a mechanism dealing with an appropriate way forward, eg extending the relevant deadline, exploring a different avenue or bringing the collaboration to an end.

### Commencement of collaboration

Intellectual property (IP) will be at the heart of any innovation project. At the start of any collaboration, the parties will need to determine a number of matters:

- Identify the IP which each party to the collaboration will need to contribute. This will be important since the parties will want to agree their respective contribution, in so that they know what they are entitled to at the conclusion of the collaboration, whether the collaboration has been successful or not.
- Determine whether any third party consent is required for the transfer or the licensing of the IP for the purposes of the innovation project. For example, a contributing party could itself be a licensee who needs the consent of the owner of the IP to sub-license it for the purposes of the collaboration.
- If the parties have decided on a structure for the collaboration which creates a new joint venture company, then it will need to be decided whether the IP rights to be provided

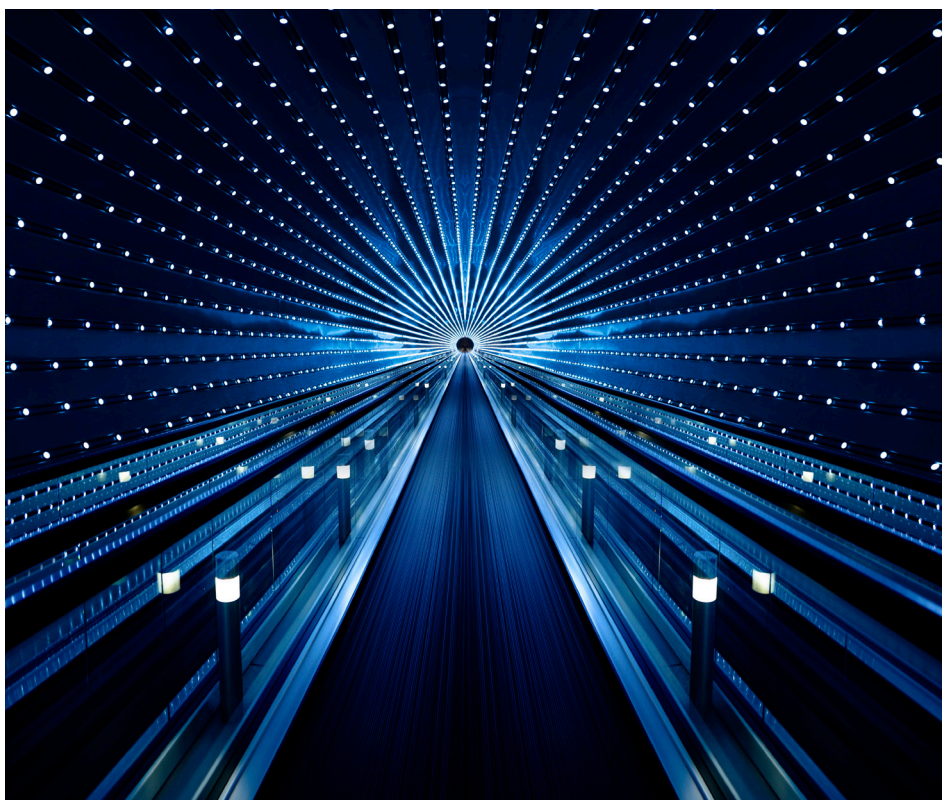
by each party are to be transferred, (so that the JV company owns the relevant IP) or whether the parties retain their own IP (and the JV is licensed the right to use and develop the IP). If the IP is to be transferred the transferor will need to consider the following:

- the transferor may lose control over the IP (this may be a concern, if there is a risk that the collaboration will fail); and
- the transferor may require a licence back to be able to continue to use the IP.
- If IP is to be licensed to the JV company, then the parties should consider the following:
  - The JV company will only have a contractual right to use IP, rather than a proprietary interest;
  - on termination, the JV company could lose valuable rights which it has created as part of the innovation project, based on the IP licensed to it; and
  - negotiation of licence terms can be complex and protracted.
- The terms on which IP is to be licensed either to the other parties in the collaboration or to the vehicle which has been created to undertake the innovation work will need to be specified. For example, will there be payment to the licensor for the use of the IP? Are there jurisdictional limitations? The scope of the licence should be clearly defined, especially if the IP being licensed has already been licensed to third parties for different applications.

### During the life of the collaboration

The parties will need to determine from the outset who will own any IP created as a result of the collaboration (foreground IP), as opposed to the background IP contributed by each party.

A common position to adopt is that each of the parties to the innovation project owns any intellectual property (for example, inventions, designs, software) that it creates itself. This seems a relatively straightforward approach. The difficulty arises where, due to the collaborative nature of the project, there is joint creation of IP or it is not possible to identify which party created which aspect of the new work. An initial thought may be for there to be joint ownership of IP. However, rather than giving each party any unfettered right to use, develop and exploit such IP, joint ownership can be cumbersome and often serves to restrict the activities of a co-owner



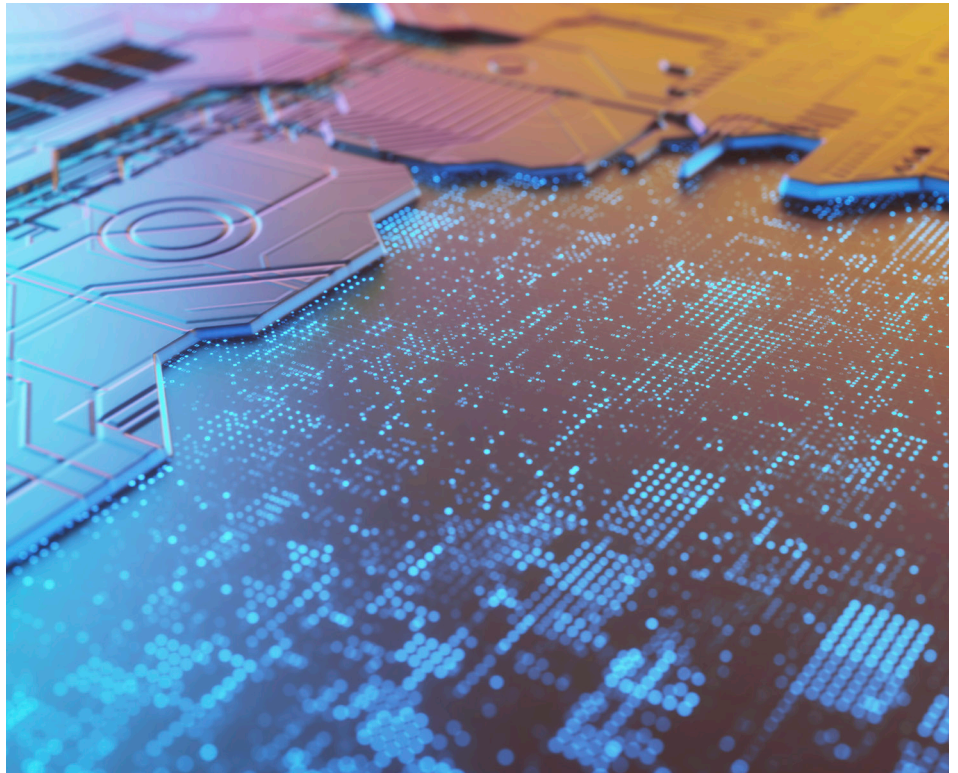
unless the other co-owners give their individual consent. The rights of co-owners should be considered at the outset and appropriate documents (eg cross licensing agreements) entered into, that provide for the regulation of the use and exploitation of such jointly owned IP.

An alternative approach is for the party which is best placed to exploit the IP that results from the collaboration to own the IP and grant a licence to the other parties, to the extent that they require such a licence. That party then also accounts to the other parties in relation to the revenue it generates from exploitation of the IP, for example by way of royalty.

If the collaboration vehicle is a separate JV company then ownership by the JV company of IP created by the JV company for the innovation project may be considered. This can have advantages and disadvantages. The JV company will have independent assets which it can use and continue to use and which could contribute to the value of the JV company. However, if IP is owned by the JV company, then any exit by one of the joint venture parties may give rise to issues relating to future use of the IP which may become contentious. If IP created by the JV company is owned by one of the contributing parties, then that IP can be licensed to the JV on specific terms and the contributing party retains control over the use of that IP.

As a broad rule, under English law, an IP right created by an employee during the course of their employment will be owned by the employer. This may be an important consideration if collaborating parties are seconding employees to the innovation project. A secondee may be part of a project team working at another collaborating party's premises with employees of that party, or a secondee could join a team at a JV company. The secondee's involvement may be for a substantial period of time; however, the IP in any of their work products will belong to their employer, not the collaborating party or the JV company.

If work is undertaken by a third party contractor then, generally speaking, the contractor will be the first owner of any IP created by them under the contract. Therefore, it will be important to set out in the agreement with the contractor the terms on which such IP will be owned and licensed. When dealing with a contractor (rather than a collaborator) it would be preferable for the contractor to assign any IP they create to a collaborating party or the JV company.



### At the end of the collaboration

The collaborating parties will need to determine from the outset the IP rights that the parties will take away and/or have the right to use on termination or expiry of the alliance. This may depend on whether the alliance was successful or not and the reasons for the termination. In addition to the ownership of new IP created during the collaboration, licences of background IP owned by each of the collaborating parties may need to be put in place to enable the use and exploitation of the new foreground IP. The terms of such licences should be agreed, up front, if possible.

Ongoing independent development by one or more participants in the same field as the innovation project can give rise to contentious issues. If, for example, one of the parties wants to continue the project but does not have the right to use the IP owned by the other collaborating parties, then it will be important for that party to put in place measures to ensure that there is no unauthorised use of such IP. This may be difficult in practice. For example, a member of the previous team may not be able to put out of his mind confidential information owned and provided by a previous collaborating party and such use by that member would infringe that party's IP rights. One way of addressing this is to use a clean team (ie a team that has

not been previously involved in the collaboration). Whilst this has the benefit of ensuring no inadvertent unauthorised use of third party IP, it does have the disadvantage of using a team that does not have the benefit of the experience and skills acquired during the collaboration. The approach taken is likely to depend on the technology involved and the resources available.

### Protecting IP arising from collaboration

Generally speaking, patent laws around the world require that there must be no disclosure of an invention before a patent is applied for. Often in collaborations with academic institutions, the relevant university or college will want to have the right to publish (albeit in specialist publications) details of their work. Any such proposal to publish should be carefully managed to ensure that publications are delayed until after all intended patent applications have been filed.

### Research and development

The arrangements forming part of an open innovation project may involve something more similar to a traditional research and development agreement under which one party's contribution is essentially the funding

of the work and the other party (often an academic institution) undertakes the relevant research and development. The considerations outlined above will apply, particularly in relation to ownership of IP and publication of results. If the organisation undertaking the R&D work is funded by other parties, (for example, particular researchers receiving grants or a particular department being sponsored by a third party benefactor or research funding body) then the pre-existing arrangements in relation to ownership of IP by such researchers should be checked to ensure there is no conflict with the collaboration's intentions and requirements.

Such researchers may be engaged on more than one collaboration at the same time. If this is the case, then the relevant agreement with the researcher should impose specific obligations of confidentiality and provisions that ensure there is no cross-over of the rights created and used. Any such cross-over could, for example, lead to confusion over when any particular IP was created and who is entitled to ownership of it.

### Competition law

There may be competition law issues arising out of collaboration agreements. It will be important to obtain advice on the competition law aspects very early on when deciding on the appropriate structure for a collaboration and in relation to the terms on which certain IP may be used and owned.

In broad terms, collaborations, especially between competitors, could be considered to be anti-competitive under European competition law. If collaborations could have effect on trade between Member States then they might fall within Article 101(1) of the TFEU. Such agreements may be exempted under the provisions of Article 101(3). In addition, there are block exemptions which might apply to the type of agreement which the parties are proposing to enter into. For example, there is a Technology Transfer Block Exemption (Commission Regulation (EU) No 316 / 2014) that applies to licenses of patents, know-how and copyright in computer software. A more relevant block exemption is the Research and Development Block Exemption (Commission Regulation No 1217/2010), which applies to some joint R&D agreements.

Each party may wish to include non-compete provisions so that the collaborating parties are prevented from undertaking competing work in the same area during the term of the collaboration and possibly for a period thereafter. The terms of any non-compete provisions must be carefully considered to ensure that they do not fall foul of any anti-restraint of trade laws.

### Tax considerations

The structure adopted for an open innovation project will be heavily influenced by tax considerations. Early advice on the tax aspects should always be sought.



## Checklist

The table below provides a 'checklist' of the key practical considerations to have in mind when collaborating with a third party.



### STRUCTURE OF COLLABORATION

- **Legal Structure:** Consider and evaluate the various corporate structures in order to determine which structure which would work best for the collaboration.
- **Tax:** Consider tax implications which may arise out of the research and development, and exploitation of the results, of the collaboration.
- **Regulatory:** Assess the regulatory considerations which may be applicable in the relevant territories (for example competition law).

The Business may wish to ring-fence the collaboration, and therefore set up a separate vehicle for this purpose. The collaborating partner(s) should be kept in mind too; it may be desirable for a joint venture to be established, and the form that this takes (ie contractual or the forming of a new company) will be determined by various considerations.

Alternatively, a party may simply wish to invest in a company and become a shareholder.

As always, tax and regulatory considerations should be thought about at the outset.



### IP ASSETS AND MATERIALS

#### Assess and identify

- **Business IP:** Establish which IP rights the business is prepared to lend to the collaboration and collaborating parties, and on what terms
- **Collaborating Party IP:** Establish which IP rights the business expects the third party/parties to share with the collaboration, and on what terms; and
- **Collaboration IP:** Establish how the IP rights which are generated during the collaboration are to be treated both during and after the collaboration.

This will ensure that the parties' positions are clear during negotiations, and that the written documents reflect the parties' agreed position.

#### Due diligence

- **Business IP:** Once the IP which the business will be sharing with the collaboration has been identified, consider due diligence on these IP rights.
- **Collaborating party IP:** Due diligence on the specific IP rights which the third party will contribute to the collaboration should be carried out.
- **Third party IP:** Where any relevant IP is licensed to the business or to the third party, the key terms of such licence should be reviewed.

It is important to ensure that the business has the right to contribute such IP to the collaboration. Due diligence will assess, amongst other things, where ownership sits, and the extent of the rights to such IP which the business has.

Due diligence on the collaborating party IP aims to verify that the collaborating entity has the right to contribute such IP to the collaboration.

It is important to ensure that there are the requisite rights in order for the collaboration to use all contributed IP as it is intended; third party consent might be required if, for example, such IP is owned by a third party.

If the collaboration relies on materials or products which comprise underlying third party IP rights, the Parties must have the requisite rights in order to exploit such IP (ideally sole ownership, but it may be in the form of rights via a licence)



## IP ASSETS AND MATERIALS (continued)

### Strength and value of IP assets

- Carry out research and due diligence into the relevant market and competitors.
- In this context, assess the relevant IP which the collaboration will be intending to exploit.

If certain IP assets are considered critical to the post-deal business objectives consider, for example, the ease with which market competitors may be able to compete with (or design around) the IP. This may affect the value of the IP (and the collaboration).

Further, the status of the market and competitors may affect how the collaboration's IP is to be dealt with. Might the collaboration be 'first to market' with an innovation? If so, the priority may be speed that such innovation is taken to market, as opposed to the obtaining of registered protection (ie a patent).

### Express provisions re IP

**With the collaborating parties:** Ensure that there are written terms in place between the collaborating parties which:

- Govern ownership of, and rights to, all IP which is contributed to, and generated by, the collaboration;
- Dictate the extent to which the collaborating parties (and the collaboration, if necessary) have a licence to use the IP which the business is contributing to the collaboration; and
- Set out the extent to which the business (and the collaboration, if necessary) has the right to use the IP which is contributed to the collaboration by the collaborating third parties.

**With employees/contractors:** Ensure that all individuals and contractors working on the collaboration have written terms in place governing the ownership of IP.

Businesses should address issues relating to IP and protection of rights thereunder prior to the establishment of a formal collaboration.

Written terms should be agreed by the collaborating parties before any IP is shared between them, in order that the terms on which such IP can be used are clear, and to preserve the value of such IP.

It will be preferable for all contractors of a party to be engaged on terms which provide for any IP which they create, to be assigned to the instructing party (or JV collaboration entity).

- Generally, under English law, any IP created by an employee during the course of their employment will be owned by their employer.
- If work is undertaken by a third party contractor then, generally speaking, the contractor will be the first owner of any IP they create.
- If work is undertaken by a 'seconded' then, generally speaking, the employer of the secondeed will be the first owner of any IP the secondeed creates.

### Protection of IP

- Consider whether there may be an invention arising from the collaboration which could be patentable.
- Obtain legal advice prior to the disclosure of any invention and consider applying for patent protection in relevant jurisdictions.
- Are there any brands which could be registered as trade marks in key jurisdictions?
- Obtain legal advice and consider applying for registration prior to use in public.

Obtaining patent protection in respect of an invention for a product or process is often highly advisable; a patent will give the owner the exclusive right, for a limited period, to stop third parties from making, using or selling such invention, in the relevant territory, without the owner's consent. It is essential that details of any such invention are kept secret until the patent application is made (disclosure would result in the application being refused or open to challenge in the future).

Obtaining registered protection in respect of any brands arising out of the collaboration is also highly advisable.



## CONFIDENTIALITY

- **Non-disclosure agreement:** Have all of the Parties entered into a confidentiality or non-disclosure agreement?
- **Ongoing confidentiality provisions:** Ensure that the recipients of business confidential information are restricted from disclosing confidential information throughout the length of the collaboration and for at least a reasonable period of time afterwards / until such confidential information is no longer confidential.
- **Employees and contractors:** All individuals involved in the project who may receive any confidential information should be subject to confidentiality provisions in their employment/ service agreements, and also made aware of any security requirements and procedures in place (ie the 'Practical steps' below).
- **Practical steps:** Consider implementing various practices in order to minimise the risk of confidential information/ data being misused, such as:
  - All confidential information and materials to be labelled as such
  - No work relating to the collaborative project to be done on personnel's own equipment
  - All confidential information to be kept secure (ie physical documents to be locked away)
  - Secure IT systems in place

Entering into a non-disclosure agreement is a prerequisite to the sharing of any confidential information with a collaborating party, and consideration must always be had to the length of time for which the collaborating party must preserve the confidentiality of such information.

Employees and contractors involved in the collaboration may have access to, or generate, confidential information. Such individuals may also be involved in other engagements or work for other organisations. Individuals should be required to adhere to provisions which restrict their ability to use or disclose any confidential information, with the aim of preserving its confidentiality.



## COMPLIANCE WITH LAWS

Have in mind the various legal frameworks within the collaboration will operate. For example:

- **Data Protection requirements**
- **Financial Services regulations**

Legal advice should be obtained in respect of the various laws which may apply in respect of the collaboration.

For example, any information that the Business-collaboration Parties will need to comply with under applicable data protection requirements.

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