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IP Pitfalls in Talking With Others

People in the renewable energy and clean technology fields regularly need to speak with others outside their company for solutions to ongoing research and development problems. For innovators working on a new invention who realize the need to safeguard company confidential information and intellectual property rights in their inventions, however, the question is: Whom can you safely talk to, when and under what conditions?

Often, innovators already have conceptual thoughts about how to solve a technical problem, yet they need to speak with a knowledgeable third party because given the multidisciplinary issues of a biofuel or clean technology innovation, for example, an innovator's organization simply can't supply all the technical requirements internally.

Some common reasons that innovators reach out to third parties for help include:

- ▶ Putting the overall final process together (e.g., adding specialized high-throughput material handling equipment between a pretreatment process and a gasification process)
- ▶ Needing more information on one given technical point that eludes them (e.g., what catalytic material/process is best used to solve problem X in the general situation Y)



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- ▶ Assistance from a technical expert, academic or consultant on just one portion of a multifaceted pyrolysis or special enzyme invention

- ▶ Testing services from a company having the facilities and equipment to test a bioproduct or machine component

- ▶ Engaging an outside engineering concern or vendor for technical assistance and/or to spec out or build a pilot-scale prototype

- ▶ Discussions at a trade show with vendors dealing in the same biomass burner subject matter area

- ▶ Requirements for specialized performance/ability tests undertaken on a cellulosic ethanol prototype process

Innovators are increasingly sensitive to the fact that they need to be careful about how much information they divulge when making third-party inquiries to preserve confidentiality and protect their invention.

Their company must retain sole control of using and commercializing the overall final solution to the problem at hand, and must own all the related intellectual property (IP) rights in the invention, even against any third party the company may contact or engage.

IP Problems

Each of the above scenarios presents varying degrees of potential IP problems. Such problems typically arise when dealing with:

Academics: The need to collaborate with academics for help with your technical problem can run several risks. For example, are you dealing with a professor as an individual, his private consulting company, or with the professor's university employer? Are you actually talking to the professor in her role as part of a third-party-sponsored research program, perhaps funded by your arch-rival competitor? Clearly, care must be taken to identify with whom you are actu-

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ally dealing and in what capacity as this will impact the type of IP rights that you are able to contractually obtain. A consulting agreement that specifically addresses confidentiality and ownership of resultant IP rights is vital to clearly delineate each party's expectations and obligations.

Outside experts, technical consultants and engineering concerns: When initially contacting any of these entities, care should be taken to use appropriate confidential disclosure agreements (aka nondisclosure agreements) directed towards protecting the innovator's confidential information (CI). If you engage the services of such entities, other agreements may be necessary to ensure ownership of resulting IP, such as consulting, joint research and development, contract research, and engineering services agreements. With such agreements, one must ensure that any inventions created (i.e., novel solutions created by the third party to the technical problem at hand) are actually transferred over and owned by the innovator's company, which is paying for the third party's technical/engineering services. Such agreements should be in place early on, prior to any disclosures being made, and at a time when everyone is still enthused about working together to solve the problem, rather than later when the parties have perhaps fallen out, or when the product/process has become so wildly successful that each party has different views on who contributed what and when to make the invention work.

Disclosures in these situations can be further complicated if the third party has specialized technical expertise, or owns pre-existing IP rights that it may bring to bear on solving the innovator's problem. In this scenario, the third party will likely require that it retains the right to use such background knowledge and IP rights, as well as any new information gleaned from the project at hand, for future clients. However, even in this situation the company's goal of getting what it pays for when hiring engineering and expert time is still attainable. That is, at a minimum, even if the company cannot get outright ownership of all IP rights, it can certainly try to negotiate a royalty-free, nonexclusive, transferable license to use the third party's IP for the innovator's own commercial purposes, and possibly even an exclusive license for its own field of use. The company may also be able to negotiate ownership of the resultant

IP rights, subject to a nonexclusive grant back to the third party for its own use.

Equipment builders, vendors and subcontractors: Disclosures made to these entities can be fraught with IP problems. Perhaps the innovator needs special biofuel processing equipment to be designed and built, for example, to solve a technical problem or to finally make his or her inventive product/process successfully work. In such cases, it is always best to also pay for any needed engineering time to solve the special problem, and have any engineering services agreement or purchase contract indicate that the innovator's company shall own the design and related IP rights. That way, the equipment builder/designer/vendor cannot then go and build the same equipment for your competitor.

Sometimes, vendors help solve a given technical problem, for instance regarding how one of their machines or chemicals could be used by the inventor. In doing so, they might possibly become a joint inventor if they contribute to the conception of at least one claim of the resulting patent application. The default ownership position under U.S. law is that absent an agreement or obligation to the contrary, an individual inventor solely owns his patent rights, and joint inventors each own an equal and undivided interest in and to the patent rights without accounting to the others. Therefore, if the vendor is a joint inventor, then absent a contract that assigns the resulting IP to your company, the vendor may be free to go to other customers, including your competitors, to make, use or sell the inventive idea. Similarly, subcontractors who help solve a technical problem for an innovation during their work, may wish to be able to get out and commercialize that solution further to other biomass or renewable energy entities similarly situated to your company.

Thus, in advance of any disclosures of CI to equipment builders, vendors and subcontractors, use written contracts detailing among other aspects that resulting IP rights are exclusively owned by the inventor's company in consideration for the funds paid for such services.

Prospective joint venture/business partners and sales negotiations: Often CI must be disclosed during negotiations for a product sale, or even the sale of a business. However, IP issues

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often arise if the parties decide not to work or go into business together or otherwise do not consummate the deal. Therefore, the parties should enter into the appropriate mutual confidential disclosure, joint development, collaboration, or other type of IP-based agreements that specifically address IP ownership and management of IP rights, confidentiality and nonuse obligations, and termination/winding down provisions (whom owns what if the deal falls apart). In appropriate settings, the third-party disclosures are sometimes made in stages, depending on how the negotiations are going. Also, so-called “no reverse engineering” clauses can be included in such agreements, commonly in the nonuse obligations to prohibit a receiving party (of the innovator’s CI) from reverse engineering or otherwise deriving the innovator’s CI or solution, and then separately using or commercializing the same.

Testing companies and repair technicians: IP related problems can arise with these entities, as they necessarily will obtain access to the innovator company’s ongoing processes and production capabilities during their work, and may become aware of a technical problem being faced by the innovator. Normally, the work of technicians (such as in merely assembling an invention, or in performing testing and experiments or repairs on it, i.e., as those whom do not contribute conceptually to an invention), does not result in joint inventorship. However, problems can arise when the innovator’s prototype still does not work, or needs improvement. Then, while the technician is making the prototype, or doing testing or repairs, they may be the one to find a way to render the invention operable, and thus, may become a true inventor. The innovator here at a minimum needs to have binding confidentiality obligations and ideally obtain an assignment of the technician’s invention rights. Preferably, such an agreement is already in place when first retaining the testing agency or technician, and before any such technicians ever access the innovator company’s facilities and CI.

Some companies may require that any visitor or service technician entering its premises sign an entrance form including, among other provisions, confidentiality and IP obligations.

Software developer: Problems here can arise under the patent and copyright laws, where absent any contracts the third party

(outside software developer), who creates the needed software to solve a problem presented by the inventor, normally owns the resultant software IP rights. Special “work for hire” or software development assignment agreements need to be used, so the innovator’s company owns all the resultant IP rights. Also, if the software developer will be using, in large part, any pre-existing software or processes on your project that they previously developed, then at a minimum the innovator’s company will want to get a nonexclusive license to use that new solution created by the software developer for the innovator company’s own needs and field-of-use, and ideally an exclusive license to the same if not outright ownership. For example, a problem can arise when a process control software consultant takes a specialized software product they distribute, and then further customizes it to suit your own special processing needs or problems.

Customers and sales representatives: Customers are often the source of identifying real-life problems in one’s industry, but they sometimes consider themselves joint inventors (or some other type of co-owner) of the innovator company’s solution. If possible, consider drafting any related patent applications on the innovator’s solution to exclude any technical input provided by a customer.

A company’s own sales representatives can create IP problems. For example, once sales representatives learn about technical problems and new solutions created within their own organization, they are often eager to share that news with their customer base, trade press and the industry. But sales representatives can also provide valuable information about what customers think are the current problems and needs facing the industry. In any event, sales representatives need to be carefully trained to reveal little, and listen well, when it comes to product/technical needs and problems in their field and ongoing internal research and development efforts. **BIO**

This is the first part of a two-part series on intellectual property rights. The second part will appear in the May issue of *Biomass Magazine*. Richard B. Hoffman is a partner at Marshall, Gerstein & Borun LLP. Reach him at Rhoffman@marshallip.com or (312) 474-6621.