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TECHNOLOGY

Technology: Beware of Joint Ownership of IP Between Alliance Partners

Joint ownership can be fraught with unintended consequences

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Technology and protectable intellectual property have become more and more central to business success and competitive advantage. As such, in the negotiation of strategic alliances and development agreements, the ownership and use of intellectual property created during the relationship can become a hot topic. Frequently someone will suggest a solution: Both parties should jointly own the IP. This is almost always a bad idea.

This article will describe how joint ownership works, illustrate the problems and unintended consequences, and provide some suggested alternatives. We will focus primarily on patents and copyrights, and to some degree on trade secrets.

How it's created:

Joint ownership can occur through the normal operation of the applicable IP laws based on the creative actions of the parties. Under U.S. law, any contributor to a patent claim owns an undivided interest in the whole patent—even a 1 percent contributor will be a joint owner with full rights to operate under the patent or grant nonexclusive licenses to others to do so. Similarly, if two or more entities contribute copyrightable material with the intention that their contributions be merged into inseparable or interdependent parts of a whole, then the U.S. Copyright Act grants each contributor an equal and undivided interest in the joint work.

Parties can also create joint ownership by agreement in the context of strategic alliances or development agreements.

The problems:

If the parties to a strategic alliance merely state that the created IP will be jointly owned, that leaves many important questions unanswered regarding their intentions. Do they expect to take actions to maintain the value (i.e., exclusivity) of the created IP? If so, who will file, prosecute and enforce the patents and copyrights? In addition, who decides whether inventions are maintained as trade secrets or are published through the patent application process? Remember that trade-secret value is generally destroyed by disclosure. Joint ownership will also mean that no one owner can grant an exclusive license without the consent of all the owners.

A second major problem with joint ownership is that, in the absence of an agreement among the parties, the default rules governing exploitation and enforcement of intellectual property vary depending on the type of IP. And, to further complicate the matter, these default rules also vary from country to country. Joint owners in different countries often have markedly different expectations regarding their respective rights in jointly owned IP.

The following examples will help clarify the scope of these problems.

Example Problem #1: Default rules under U.S. patent law

For jointly owned U.S. patents, the rules are as follows for exploitation (which includes both use by the joint owner itself as well as the granting of nonexclusive licenses to others):

- Each joint owner can exploit without permission of the others
- No duty to share proceeds
- Problem: Race to offer best deal to potential licensees and retain the benefits

For jointly owned U.S. patents, the rules are as follows for enforcement:

- All joint owners must join suit
- Problem: Race to agree with the infringer not to sue (e.g. grant a license and retain the benefits)

You can see from the above that each joint owner will be at the mercy of the others. Some call this a "race to the bottom" because it is easy to grant licenses and reap the proceeds, but hard to sue infringers that are misusing the IP.

Example Problem #2: Differing treatment under U.S. law for exploiting patents and copyrights

Each joint owner can use the intellectual property itself and can grant nonexclusive licenses as follows:

- Patents: Without permission from the other owners or a duty to share the proceeds
- Copyrights: Without permission from the other owners, but with duty to share the proceeds

So, absent an agreement to the contrary, what happens with products such as software that are subject to both patent and copyright?

Example Problem #3: Differing treatment among U.S., U.K. and Japan

The following chart summarizes the default rules governing whether a joint owner needs the permission of its co-owners to exploit patents itself and to grant nonexclusive licenses to others.

Exploiting Patents

	By Co-owner	By License to 3rd Party
U.K.	No permission [similar to U.S.]	Need permission [different from U.S.]
Japan	No permission [similar to U.S.]	Need permission [different from U.S.]

The following chart summarizes the default rules governing whether a joint owner needs the permission of its co-owners to exploit copyrights itself and to grant nonexclusive licenses to others.

Exploiting Copyrights

	By Co-owner	By License to 3rd Party
U.K.	Need permission [different from U.S.]	Need permission [different from U.S.]
Japan	Need permission, which cannot be unreasonably withheld [middle ground between U.S. and U.K.]	Need permission, which cannot be unreasonably withheld [middle ground between U.S. and U.K.]

Alternatives to Joint Ownership:

I hope the foregoing has motivated you to avoid joint ownership of IP whenever possible. There are several approaches to consider as better alternatives. The analysis of which approach is best is necessarily fact-specific, but there is one overriding principle to keep in mind: You must address these structural issues early in the business negotiations. It will be significantly more difficult for counsel to introduce these ideas in the middle of the process.

First, the parties could create a separate joint venture entity to own the intellectual property that will be created. The entity would then enter into license agreements with third parties and with the joint venture parties as appropriate. Ultimate control of the to-be-created IP would be subject to the ownership and management structure selected by the parties for the entity. This approach can work well for complicated deals.

Second, the parties can allocate ownership all to one party with the IP licensed to the other party. While this may appear to be unfair, the license grant can be drafted very broadly so the licensee party often gets everything it needs and wants. This approach can also work well for complicated deals and can be the cleanest and therefore best solution.

Last, the parties can allocate ownership of certain specified intellectual property to one party and certain other specified intellectual property to the other party in accordance with criteria set forth in the parties' agreement. The criteria could be related to what each party brings to the relationship, or based on a party's products or field of use, or any other criteria that the parties can articulate. Success under this approach will turn on the parties' ability to draw the lines in a fair and unambiguous manner, and it is therefore best for well-defined deals.

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