

Joint ventures, IP and the siren song of joint ownership

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Part 1: The growing value of IP as a business asset

Economies around the globe continue to see the rise of the services sector as the chief creator of wealth and the engine of growth for the foreseeable future. We are in the midst of a radical and global shift to economies based primarily on services, and the share of world GDP arising from services is increasing at a dramatically accelerating rate. Innovative service firms tend to exhibit high productivity, and utilizing intellectual property law to protect the right to use and benefit from innovations is therefore likely to contribute to productivity growth while concurrently supporting beneficial differentiation in the marketplace.

In each instance, and without regard to the economic sector analyzed, the value of innovations, technology, and information appreciates with each passing year. Accordingly, the protection of a business's intellectual property rights is critical to its competitiveness, growth prospects, and market value.

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This article is the first of a three-part series discussing the ins and outs of joint ownership of intellectual property in joint ventures.

Growth strategies

Businesses can grow by focusing on market penetration, market development, product or offering development, diversification, or any combination of the same. Most businesses strive to achieve those goals by simultaneously pursuing, to varying degrees, internal and external growth strategies. The importance of intellectual property protection is heightened, and the consequences of failures in this regard magnified, in the context of external growth strategies.

Among the three primary methods of achieving external growth — joint ventures and strategic alliances, mergers and acquisitions, and franchises — joint ventures arguably present the most challenging set of obstacles because the degree of confluence between or among the constituents is high while those constituents nevertheless retain their individual identities. Ideally, the components contributed to, and the product generated by, the joint venture should be capable of being divided and returned to the co-venturers.

When a joint venture is selected as the vehicle for achieving certain external growth goals, intellectual property issues are often only cursorily addressed. Intellectual property is a key aspect of many joint ventures, but, for a variety of reasons, many parties who enter into joint ventures often fail to adequately address the multiplicity of issues related to IP. The reason why this occurs certainly varies from JV-to-JV, but two generalizations are typically valid: (1) parties fail to recognize and appreciate the multiplicity of intellectual property issues involved in forming a joint venture or (2) parties fully recognize and appreciate the multiplicity of intellectual property issues involved in forming a joint venture and, for that reason, shrink from the seemingly arduous task of working through those issues in favor of a simple shortcut or a politically expedient solution.

Punting on legal issues

Many joint venturers, often in the spirit of collaboration or in the interest of avoiding difficult conversations or spending time and money on “legal details,” choose to ignore or superficially address many IP issues at the outset — e.g., IP valuation, the JV's purpose and the scope of IP contributed, who will own the IP, how the IP will be owned, licensure issues (including various terms, such as pricing, term, field-of-use restrictions, improvements, enforcement, sub-licensure, termination, and implied licenses), competition, R&D, and JV-exit dynamics.

Co-venturers often “punt” on these issues with the intention of addressing them at a later date or agree to joint ownership of IP as a hopeful “magic bullet” solution for permanently avoiding them. But joint ownership of IP has the potential to create many problems for a JV and its owners, and the cost of resolving related issues at a later date — if they can be resolved at all — often significantly exceeds what the costs would have been if they had been addressed when the JV was created. In particular, parties

tend to fight over IP after its potential value becomes apparent, which means that a quick, efficient resolution of IP issues is often impossible once the IP's value is evident.

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When forming a joint venture and working through the many issues that must be addressed, many co-venturers fall victim to the siren song of co-ownership in the context of intellectual property rights as a means of avoiding difficult conversations — indeed, co-ownership sounds “nice” and “fair.” But beware. Co-venturers should avoid falling into the trap of simplicity and consider numerous issues up front.

About the authors



Steven E. Bartz (L), a corporate practice shareholder in **Greenberg Traurig’s** Dallas office, has experience in the creation, negotiation, and implementations of joint ventures, and advises clients on complex joint ventures related to mergers and acquisitions and other matters. He regularly represents and counsels clients on matters that cover sectors such as the finance, hospitality and leisure, sport and entertainment, real estate, health care, and energy sectors. He can be reached at bartzs@gtlaw.com. **Jerry L. Fellows (R)**, shareholder in the firm’s Dallas and Austin offices, works within the firm’s intellectual property and technology practice. He focuses on clearing, acquiring, and enforcing United States and foreign patent

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Thinking things through

At the outset, co-venturers should carefully consider what IP their JV will need to utilize, what IP the JV is likely to create, and what will be done with respect to that IP upon a co-venturer’s exit from the JV. A variety of related questions should be asked and related due diligence performed before crafting and negotiating mutually agreeable solutions.

Failing to think through the JV’s IP inputs and outputs when establishing the JV, as well as how those may evolve and be affected by various scenarios throughout the JV’s lifecycle, may jeopardize the success and value ultimately created by the JV. Seasoned professionals — legal, accounting, and otherwise — who make their living navigating these issues can help a co-venturer maximize the value of what can be created from IP in connection with a JV while avoiding deceptively simple “solutions” that are likely to create or exacerbate future problems. Simplicity is valuable and prized by decision makers, but simplification often proves an almost irresistible lure that can produce destructive oversimplification.

In part 2 of the series, Inputs, Outputs, and Endgames? the authors will discuss what prospective co-venturers should think about with respect to their contemplated JV’s IP: What IP will the JV need to utilize, and what IP will the JV likely create.

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