Joint ventures, IP, and the siren song of joint ownership: IP-related pitfalls

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In the early stage of entering into a joint venture (JV), it may seem attractive to agree to joint ownership of intellectual property (IP) that is developed through the course of the JV. But as discussed in our third installment of this four-part series, such an arrangement can create numerous difficulties concerning enforcement, commercial exploitation, and termination.

These include issues associated with delegation of responsibilities, allocation of rights, and wind-down. In addition to these general action-coordination problems, there are a host of joint-ownership issues that are specific to various categories of IP.

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

Patents. The benefit of a patent is that it vests its owner with the exclusive right to exclude others from utilizing the claimed invention. Joint ownership of a patent undermines that exclusivity in numerous ways. Co-ownership of patents can arise from a very limited contribution to the patent, which may become apparent due to an inventorship challenge later in the relationship. Co-venturers should proactively reach agreement on patent co-ownership issues before conflict arises, and such agreement is more readily reached before innovations have clear commercial value.

Licensing. An exclusive license to use a patent cannot be granted without the cooperation of all owners, but each joint owner of the patent is independently able to non-exclusively license the rights associated with that patent. Relatedly, co-ownership of United States patent rights allows each owner to commercialize the rights without sharing any profits with other owners. (Patent rights are controlled by each country's laws and regulations, and different countries treat jointly developed patent rights very differently.)

The practical upshot is that joint owners of United States patents may compete with one another when a prospective licensee plays one off the other to obtain the best deal, and this dynamic can undermine or destroy efforts to profit from the underlying innovations. (Some other countries require patent profit sharing, but the United States is often a key market for commercial exploitation of the patent.) Such a dynamic also may undermine the potential benefits associated with developing derivative IP, potentially stifling further innovation and thwarting associated commercial gain.

Enforcement. A patent co-owner seeking to maintain a patent-infringement suit must join all other co-owners, which means that co-ownership of patent rights allows one owner to impede other owners' ability to sue infringers by refusing to join such a suit.

In fact, it is possible that a co-owner may license or threaten to license the patent to an accused infringer instead of joining the lawsuit. The co-owner could thereby create two possible avenues to derive exclusive benefit from the jointly owned patent that such co-owner could theoretically maximize through the simultaneous pursuit of both in order to create a bidding war: revenue from the licensee versus payment from the co-owners to join the lawsuit.

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Copyrights. Each co-owner of a jointly owned copyright is free to use or license that copyright, and to create or authorize derivative works, without the consent of other co-owners.

Licensing. An exclusive license to use a copyrighted work cannot be granted without the cooperation of all owners, but each joint owner of the copyright is independently able to non-exclusively license the rights associated with that copyright. However, unlike the case with a United States patent, each co-owner of a copyright is accountable to the other co-owners for a share of the profits derived from any exploitation or license of the copyright.

What constitutes a particular co-owner's rightful share can be a complicated analysis that may result in disputes, especially when derivative works are involved. Nevertheless, a copyright co-owner may find little comfort in its ability to independently grant non-exclusive licenses to third parties, because many publishers, who desire exclusive rights to the copyrighted work, will balk at the suggestion of a non-exclusive license.

Also, United States copyright law is counterintuitive in some ways. For example, absent a valid work made for hire arrangement or absent a written agreement transferring rights from the author, a company contracting with the author may only receive a limited implied license to the copyrighted work. Copyright assignments are typically easy to obtain before the start of the work and are sometimes readily obtained while relationships with authors are favorable. Waiting until the copyrighted work is clearly valuable or the relationship is antagonistic or terminated may lead to expensive and adverse results.

Joint ownership of a trademark compromises its fundamental function as the identifier of a unique source of a particular good or service.

Enforcement. Unlike patents, the co-owner of a copyright may unilaterally enforce the copyright against a third party without the necessity of joining all other co-owners to the infringement suit. Nevertheless, the co-owner subversion dynamic described in the patent "Enforcement" section, above, could still arise in the copyright context, although the subversive co-owner's leverage in this context may be dampened by the requirement that such co-owner would be required to pay the other co-owners their share of the revenue derived from the non-exclusive license to the accused infringer.

Trademarks. Joint ownership of a trademark compromises its fundamental function as the identifier of a unique source of a particular good or service.

Enforcement. The owner of trademark, in order to preserve that trademark, must monitor and control the quality of its trademarked goods or services — both those directly provided by the owner and those provided by its licenses. If joint owners of a trademark fail to apply uniform standards to those monitoring and quality-control functions, they may jeopardize the trademark.

Additionally, the joint-coordination problem is particularly acute in this regard, in that if responsibilities regarding monitoring and quality control are not clearly assigned, co-owners may incorrectly assume that other co-owners are performing these functions, and incurring the associated costs, thereby increasing the likelihood that a court might rule that the co-owners have lost all rights in the trademark.

Alternatively, if one co-owner unilaterally performs the monitoring and quality-control function, it is possible that a court might find that the other co-owners have lost rights in the trademark, thereby resulting in the performing owner becoming the sole owner of the trademark.

Lastly, if multiple co-owners perform the monitoring and quality-control function, but they employ inconsistent standards, then they increase the odds that a court might find the trademark is unenforceable, thereby resulting in the owners' forfeiture of the exclusive right to use that trademark.

Trade secrets. The legal rights and obligations of owners concerning trade secrets are less well defined than those associated with the ownership of patents, copyrights, and trademarks. Accordingly, an agreement that addresses related issues is advisable.

Conservatively, owners should assume that they must account to other co-owners for profits derived from those trade secrets, although there may be a question as to whether a trade secret with multiple owners is, in fact, a trade secret. Because a trade secret derives its value from actually being secret, co-venturers must coordinate efforts to maintain confidentiality.

Such coordination may be practically difficult if a co-venturer's employees and contractors are accustomed to lax confidentiality requirements. The wider the distributed ownership or use, the narrower the likelihood for claiming co-ownership in anything unique. Depending on the nature of the trade secrets, profit-sharing arrangements among "co-owners" might implicate antitrust issues.

Conclusions. The issues identified above and in the three earlier installments of this article are typically not mere "legal details" that co-venturers can afford to overlook or address superficially, and, in many JVs, the ownership, use, and function of IP by the joint venture and its members are crucial components of the JV's business and underlying value proposition.

Notwithstanding the actual or perceived complexity of the needed IP arrangements, "kicking the can down the road" is likely to result in more protracted, contentious negotiations between or among co-venturers, and opting for "joint ownership" as a simple and Solomonic solution is almost certain to create problems for everyone involved.

Co-venturers who take the time to thoughtfully analyze and address their and their JV's IP early in the formation process place themselves in a better position to create a successful JV and to ultimately profit from their investments of resources.

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