Joint ventures, IP and the siren song of joint ownership: avoiding pitfalls and unscrambling the egg

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As discussed in our previous installments, joint ownership of intellectual property (IP) should be avoided except in relatively rare circumstances. Joint ownership typically arises through joint development and, in the context of a joint venture (JV) company, all IP owned by the JV, including the IP it develops, might eventually be unwound.

Although the allure of "fairness" and "simplicity" may entice co-venturers to agree to joint-ownership of such IP (or to treat such IP similar to any ordinary asset in a JV company, such as in the context of dissolution), co-venturers should take the time to work through these issues — as painful as it may be (*although it need not be*) — at the outset.

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

Joint ownership of IP has the potential to create numerous difficulties concerning enforcement, commercial exploitation, and termination. Various action-coordination problems might jeopardize the IP or its value if not properly addressed. These include the following general issues:

Delegation of Responsibilities. The co-venturers should have a clear understanding of who has the right or responsibility to seek legal protection of all jointly developed IP. They should determine who will make decisions regarding whether IP protection or registration should be sought and where it should be sought. A related issue is the co-venturers' need to determine who will pay for prosecution (*i.e.*, obtaining IP recognition and protection from the applicable government entity or regulator) and maintenance to keep the related IP recognition and protection in force.

Importantly, the co-venturers also should determine the consequences of a co-venturer's failure to act in accordance with the agreed upon arrangements. If they fail to address these issues in advance, the likely results will be *ad hoc* decision making between or among parties with various asymmetries in resources and motives (*i.e.*, available funds, personnel, strategic visons, etc.) exploited to the advantage of the stronger party or first mover (and not necessarily in the best interest of the JV) — and that assumes that any needed action takes place at all.

When nobody has their eye on the ball, it's quite easy to drop the ball: Actions, such as preparing and submitting filings by a particular deadline, might not occur in the requisite timeframe, or might not occur at all, because one party might incorrectly assume that the other is handling the issue.

Allocation of Rights. The co-venturers should determine if each party is permitted to commercially exploit the jointly developed IP and, if so, to what extent. For example, may the co-venturers use the jointly developed IP in competition against each other? What freedom will each party have to license the jointly developed IP rights to third parties? If the co-venturers may independently license that IP to third parties, may they license the jointly developed IP to a co-venturer's competitors? A critical and related issue will be to determine each party's obligation, if any, to share revenues generated from the jointly developed IP with co-venturers.

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Wind-Down Issues. The co-venturers should determine the treatment of the jointly developed IP if the JV is abandoned. Will the former co-venturers be free to continue to develop the associated IP previously utilized or developed by the JV? If so, what developments, improvements, or revenues must be shared with the other party, if any? If not, what will be the terms of the related restrictions?

Derivative IP. In addition to addressing issues concerning jointly developed IP, the co-venturers also should address IP derived from that jointly developed IP, including the allocation of related rights and responsibilities.

A good first step would be to define derivative IP and then to determine who will own it. From there, all of the preceding issues and questions that apply to jointly developed IP should be

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addressed for derivative IP, as well. Unfortunately, derivative IP is rarely addressed in practice, which provides fertile ground for disagreements and litigation.

In addition to the general action-coordination problems identified above, there are a host of joint-ownership issues that are specific to various categories of IP. (These issues will be discussed in our fourth and final installment.)

The problems associated with co-ownership are only compounded by bankruptcy and cross-border operations. Bankruptcy treatment varies by type of IP and sometimes by country, making a consistent result difficult to achieve without a proactive approach. Different regional and national IP authorities treat jointly owned IP very differently, both in and out of bankruptcy, leading to different rights and obligations on a country-by-country basis.

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Co-venturers should, at the outset, endeavor to address as many of the aforementioned issues as possible in a joint development agreement (JDA), which can take the form of a stand-alone agreement, such as with a strategic alliance, or as concepts incorporated into a JV company's governing documents. The second article in this series addresses the considerations for strategic alliances versus JV companies. See "Joint ventures, IP and the siren song of joint ownership: inputs, outputs and endgame," Reuters Legal News, June 7, 2023.

In summary, the co-venturers should examine and address each of the following issues, among others, in the JDA: (1) the ownership, use, development, protection and enforcement of the IP relevant to the JV; (2) the allocation of financial risks and liabilities related to that IP; and (3) rights and obligations related to the IP's continuation and termination and, in the context of a JV company, the termination of a co-venturer's continuing interest in the JV or the JV company itself.

Each specific type of IP — patents, copyrights, trademarks, and trade secrets / know-how — will create specific issues that need to be addressed categorically in addition to any particularized aspects of an individual assignment or license. For example, the joint development of patent rights often can be avoided through a carefully drafted JDA: Co-venturers frequently form a JV with the expectation that each organization will contribute different, but complementary, skills and IP, so if the dominant IP in certain technologies continues to be developed by the co-venturer with the most expertise in the applicable field, then the JDA can allocate the IP ownership by technology and/or fields of use and require the owner to license the IP to the other co-venturer.

The exit and unscrambling the egg

When co-venturers ultimately decide to exit their JV, that exit can take many different forms, each of which may have a different impact on the jointly developed IP and possibly the value of the co-venturers' separately owned IP as well. As with the entrance into the JV, more exit options are available to the co-venturers if the JV has been structured as a JV company.

The equity in the JV company can be sold to a third-party buyer, allowing the JV to continue to benefit from its ownership of the jointly developed IP while simultaneously enabling the co-venturers to monetize that value through the sale of their equity in the JV. Similarly, one co-venturer can buy the equity owned by another co-venturer in the JV, producing a similar result for the seller.

However, when only one co-venturer exits but other co-venturers remain in the JV or continue to own the JV entity, if applicable, the exiting co-venturer may desire to continue to access the jointly developed IP and to access or retrieve its contributed IP. Similarly, the continuing co-venturers or the JV entity, if applicable, may need continued access to certain aspects of the exiting co-venturer's IP.

Addressing these issues at the time of an exit rather than at the entrance into the JV often leads to protracted negotiations, in part because the value of the IP is more readily ascertainable. Accordingly, co-venturers should address at the outset each party's rights with respect to IP utilized and developed by the JV in the context of various types of exits from the JV.

Both the JV company and strategic alliance structures permit a direct sale of the jointly developed IP, whether as part of a liquidation or as a typical negotiated sale. Preferably at the formation of the JV in contemplation of an eventual liquidation, parties who contribute IP to the JV company should stake their claim to the return of the IP, and should negotiate corresponding contractual rights and a related valuation methodology, upon the dissolution of the JV company.

An asset sale is typically easier to orchestrate with a JV company because there is only one seller — the JV company itself — and most of the multi-party sell-side dynamics can be eliminated or otherwise outlined by the JV company's governing documents and third-party contracts.

In contrast, all of the dynamics associated with selling any jointly developed IP become more complicated, and the coordination expenses grow, if multiple parties must be involved as sellers in order to effectuate a sale, such as would be the case if the jointly developed IP is jointly owned by the co-venturers through a strategic alliance.

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