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Co-Chairs
Marcelo Halpern
Ira Jay Levy
Joseph Yang

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IP Issues in Joint Ventures and Strategic Alliances

Joseph Yang

PatentEsque Law Group, LLP

Joseph Yang is a partner at PatentEsque Law Group, LLP where he specializes in technology transactions, especially patent licensing. He previously served as VP & General Counsel of Cryptography Research, Inc. Before that, Joe was Counsel at the Skadden Arps firm, where he co-founded and later led the IP transactions practice in the firm's Palo Alto office. Joe co-chairs PLI's "*Advanced Licensing Agreements,*" "*Advanced Patent Licensing*" and "*Understanding the IP License*" programs. Joe is also co-teaching the "Patent and Technology Licensing" course at Stanford Law School, and previously co-taught "Patent Law and Policy" at U.C. Berkeley School of Law. Joe is a member of the California bar, and is a registered patent attorney. He holds a JD from Stanford Law School and a PhD (in engineering) from the California Institute of Technology. Joe can be reached by email at joe@patentesque.com or by phone at (650)233-0822(O).

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BIOGRAPHICAL INFORMATION

Joseph Yang is a partner at PatentEsque Law Group, LLP, and previously served as VP & General Counsel of Cryptography Research, Inc. until its acquisition by Rambus, Inc.

Joe specializes in structuring and negotiating IP-centric deals (patent licensing/sales, tech transactions, JVs and M&A), and in the use of patents as strategic business assets. He has been lead counsel on hundreds of deals involving billions of dollars in value – across the computer, electronics, semiconductor, digital entertainment, consumer goods, healthcare, energy and manufacturing industries. Joe has also been an expert witness, arbitrator, overseen complex patent litigation, and developed and licensed worldwide corporate patent portfolios.

Joe is a recognized authority on IP law. He is profiled in Marquis "Who's Who in American Law" and "Who's Who in America," and has been named one of the "World's Leading IP Strategists" by Intellectual Asset Management magazine. Joe co-chairs the "Advanced Licensing," "Understanding the IP License," and "Advanced Patent Licensing" and courses at PLI. He has written for journals & books, and been cited by courts & treatises, on patent and licensing law. Joe is co-teaching the 2014-2015 "Patent and Technology Licensing" course at Stanford Law School, and has previously co-taught the "Patent Law and Policy" course at U.C. Berkeley School of Law.

Before PatentEsque Law Group, Joe co-founded and later led the IP Strategy & Transactions practice in the Palo Alto office of Skadden, Arps. Before becoming an attorney, Joe was a research engineer in the aerospace and energy industries. He holds a J.D. from Stanford and a Ph.D. (in engineering) from the California Institute of Technology, where he has served on the boards of the Alumni Association, and the Caltech Associates.

This paper will generally cover three topics of particular relevance to strategic alliances and other forms of joint ventures[2] (hereafter, "JVs"): (1) how to allocate IP rights among the parties – a formation concern; (2) how to enforce IP rights against third parties – an operational concern; and (3) how to deallocate IP rights – an exit concern.

I. PITFALLS OF JOINT OWNERSHIP

The most common form of IP allocation in collaborative transactions is some form of joint ownership. This is because joint ownership is *perceived* to be a "fair" solution for situations involving multiple contributors. Unfortunately, many business people (and even experienced counsel) lack an in-depth understanding of what joint ownership really means yet are accepting of it because "it's always been done that way." In practice, joint ownership is fraught with pitfalls for the unwary. Contrary to common perception, it is often unfair and, even worse, is usually unworkable.

For example, consider a U.S. patent. The default rule is that each joint owner can exploit the patent without permission of the other joint owners. Further, the exploiting joint owner has no duty to share royalties with any other joint owner. Conversely, to enforce the patent, all the joint owners must join the suit.

What happens when one joint owner wants to license a third party? A savvy third party will play the joint owners off against each other, to get the sweetest deal. Conversely, if one joint owner wants to sue (rather than license), any other joint owner can cut off the suit by granting a license, or by refusing to join. Either way, the result is often a "race to the bottom" scenario that minimizes, rather than maximizes, the value of the jointly owned patent. It is no wonder that courts have characterized patent joint owners as being "at the mercy of each other."[3]

The situation becomes even more complicated if multiple IP types are involved, each with differing default rules.

For example, contrary to the U.S. patent rule, joint owners of a U.S. copyright must share royalties. What happens when software covered by both patent and copyright is licensed by a joint owner? How can the joint owners determine which fraction of the software is exempt from

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2. This paper will use "JV" in a general sense to refer to any relationship where two or more parties collaborate to develop IP that pertains, in some way, to their respective business. The relationship may be purely contractual (sometimes referred to as a strategic alliance), the parties may be members in a formal joint venture company (typically a LLC), or there may be some combination of the foregoing.
3. See, e.g., *Willingham v. Loughton*, 555 F.2d 1340, 1344 (6th Cir. 1977).

royalty-sharing under U.S. patent law, and which is subject to royalty-sharing under U.S. copyright law? After all, the commercial product (the software) itself is indivisible.

The situation is even more complicated when the same IP asset is protected in multiple jurisdictions (e.g., a U.S. patent and a corresponding Japanese patent). This is because different countries have different default laws. Also, parties in different countries – looking at joint ownership through the prism of their individual national laws – may have entirely different expectations of what it means to be a joint owner. So, for a product that is intended to be sold worldwide, the parties' legal rights and obligations with respect to exploitation and enforcement of the underlying IP may vary from country to country.

Sometimes, the parties are aware of these difficulties, and draft their JV agreement to include contractual provisions setting forth their rights and obligations regarding exploitation, and enforcement, of the jointly owned IP.

However, it is questionable whether these agreements are enforceable against third parties. For example, suppose the agreement prohibits selling products to a third party, yet one of the joint owners does so in violation of the covenant. The third party may be protected as a bona fide purchaser for value.

II. HOW JOINT OWNERSHIP ARISES UNDER U.S. LAW

To understand the pitfalls of joint ownership, one must begin with an understanding of how joint ownership actually comes about. This section examines how joint ownership arises under U.S. law.

A. JOINT OWNERSHIP VIA CREATION

1. Patents (Inventorship)

Patent joint ownership can arise *ab initio* from joint inventorship, i.e., where two or more parties directly or indirectly collaborate as inventors. This may even happen unwittingly, as the inventors need not have physically worked together or at the same time, they need not have made the same type or amount of contribution, and they need not have jointly contributed to every claim. 35 U.S.C. 116.

Under the patent law, the "inventions" covered by a patent are defined by the claims in the patent. Absent an express agreement to the contrary, a contributor to any claim of a patent owns a pro

rata undivided interest in the entire patent, provided that the inventors agreed to cooperate in the inventive process. *Ethicon v. U.S. Surgical*, 135 F.3d 1456 (Fed. Cir. 1998), *cert. denied*, 119 S.Ct. 278.

In *Ethicon*, some or all of the claims in the patent at issue were jointly invented by collaborators Yoon and Choi. However, only Yoon was named as an inventor. Ethicon, the assignee of Yoon, sued U.S. Surgical under the patent. U.S. Surgical identified Choi as a missing (i.e., unnamed) joint inventor, located him, and negotiated a license from him. Ethicon challenged the validity of the license. The courts upheld the validity of the license because Choi, as a joint inventor, was a joint owner of the patent. The lesson is that even a 1% contributor to a patent can be a joint owner of the entire patent.

2. Copyrights (Authorship)

Copyright joint ownership can arise *ab initio* from joint authorship (i.e., authorship of a "joint work").

Under U.S. copyright law, a "joint work" is a work made by multiple authors whose contributions are "inseparable" or "interdependent," and who had an intention to create the joint work. 17 U.S.C. 101. Similar to the patent law, the co-authors need not have worked together physically or at the same time. *Shapiro*, *Bernstein v. Jerry Vogel Music*, 161 F.2d 406, 409-410 (2nd Cir. 1946), *cert. denied*, 331 U.S. 820 (1947). For example, a songwriter (who first authors lyrics) and a composer (who later independently authors the musical score) are deemed co-authors of the overall musical work.

B. JOINT OWNERSHIP VIA ASSIGNMENT

Joint ownership can also arise from assignment of what was, at the time of creation, a solely created (and thus solely owned) invention or work of authorship. More specifically, joint ownership arises when an owner of an IP asset assigns an undivided interest therein to another party, while also retaining an undivided interest. (This is the IP law equivalent of tenancy in common). In the case of patents, any assignment creating joint ownership must be of an undivided interest. That is, one cannot assign an interest in a patent on a claim-by-claim or field-of-use basis. See, e.g., *Pope*, 144 U.S. 248 (1892) and *Intl. Gamco,* 504 F.3d 1273 (Fed. Cir. 2007). This illustrates the general principle that one cannot divide ownership of a patent on a

claim-by-claim basis. See, e.g., *Lucent v. Gateway and Dell and Microsoft*, 543 F.3d 710 (Fed. Cir. 2008).

C. NATIONAL LAWS V. CHOICE OF LAW CLAUSES

The foregoing shows that jointly owned IP arising out of a JV will have been created either *ab initio*, or via assignment. Either way, the creation will have occurred pursuant to an agreement among the JV participants. This may be the JV agreement governing the parties' relationship, or an assignment agreement. Either agreement will typically have a choice of law clause, and many people (mistakenly) believe that that choice of law clause will also control the applicable default law pertaining to the jointly owned IP.

This is not true. Instead, the rights and obligations of the joint owners will be governed by the relevant national law under which the IP asset was created.[4] For example, rights in a U.S. patent will be governed by U.S. federal laws, and rights in a Japanese patent will be governed by Japanese law.

III. RIGHTS TO EXPLOIT

To illustrate the wide variation in joint owners' rights and obligations from country to country, consider the laws of the three major industrialized countries: the U.S., the U.K., and Japan.

A. U.S. LAW

As suggested in Section II.A above, different IP types are governed by different default rules, even within the same country.

For example, in the case of a jointly owned U.S. patent, absent an agreement to the contrary, each joint owner can fully exploit the patent without permission of, or accounting to, the other joint owners. 35 U.S.C. 262.

Conversely, in the case of a jointly owned U.S. copyright, each joint owner can exploit without the permission of, but has a duty of accounting to, the other joint owners. See *Richmond v. Weiner*, 353 F.2d 41, 46 (9th Cir. 1965), *cert. denied*, 384 U.S. 928, *pet'n. reh'g. denied*, 384 U.S. 994 (1966); *Oddo v. Ries* (9th Cir. 1984); and

4. See, e.g., *Deprenyl Animal Health v. University of Toronto Innovations Foundation*, 297 F.3d 1343 (Fed. Cir. 2002).

Shapiro, Bernstein & Co. v. Jerry Vogel Music, 221 F.2d 569, 571 (2nd Cir.), *mod'd. on rehearing*, 223 F.2d 252 (2nd Cir. 1955).

In either case, the joint owner's right to exploit includes the right to license third parties. What happens when a joint product (e.g., software) implicates both patent and copyright rights? Since both patent and copyright law allows free exploitation, either joint owner can license the third party. Thus, a savvy prospective licensee will play the joint owners off against each other, to get the sweetest deal.

However, once the deal is struck, how does the license-granting joint owner allocate licensing royalties between the patent-related portion (requiring no sharing) and the copyright-related portion (requiring sharing)? After all, the technology (e.g., software) is indivisible.

B. FOREIGN LAWS

The default rules for joint owners' rights in IP assets issued or registered by foreign countries will, of course, depend on the laws of those countries. By way of example, Table 1 illustrates the rights to exploit patents and copyrights in the United Kingdom[5] and Japan[6,7] compared to the United States.

	Patent		**Copyright**	
	Right to Exploit for Self (e.g., use in own business)	Right to Exploit for Third Parties (e.g., grant licenses)	Right to Exploit for Self (e.g., use in own business)	Right to Exploit for Third Parties (e.g., grant licenses)
United Kingdom	Do not need permission of other joint owners [LIKE U.S.]	Need permission of other joint owners [UNLIKE U.S.]	Need permission of other joint owners [UNLIKE U.S.]	Need permission of other joint owners [UNLIKE U.S.]

5. Information courtesy of U.K. attorney Alastair Breward, Esq., of Taylor Wessing (personal communication).
6. Copyright information courtesy of Japanese attorney Yoshikazu Tani, Esq., of Tani and Abe (personal communication).
7. Patent information from Kenichi Nakano, "Patent Rights of Co-Owners in Japan," *Les Nouvelles* (Journal of the Licensing Executives Society), March, 2000, pp. 48-53.

Japan	Do not need permission of other joint owners [LIKE U.S.]	Need permission of other joint owners [UNLIKE U.S.]	Need permission of other joint owners, but they cannot unreasonably withhold permission [INTERMEDIATE BETWEEN U.S. and U.K.]	Need permission of other joint owners, but they cannot unreasonably withhold permission [INTERMEDIATE BETWEEN U.S. and U.K.]
United States	Do not need permission of other joint owners	Do not need permission of other joint owners	Do not need permission of other joint owners	Do not need permission of other joint owners

Table 1 – Comparison of Right to Exploit Jointly Owned IP in U.S., U.K. and Japan

As the table shows, the joint owners' rights in foreign IP assets may be the same as, somewhat different than, or entirely different than their rights in the U.S. IP assets. So, joint owners will be faced with the prospect of operating under a patchwork of default rules, covering the same basic IP asset (and the same commercial product covered by those IP assets) in many different countries.

An even more insidious problem occurs when parties from different countries attempt to negotiate a JV agreement involving joint ownership without specifying in detail what they really mean. Each party, operating from its own perspective, is likely to have a different view of joint ownership than the other. For example, in the case of copyrights, an American will interpret joint ownership as giving the joint owners complete freedom of operation, whereas an Englishman will interpret joint ownership as giving the joint owners no freedom of operation. One may even wonder whether the agreement is even valid, if there was no meeting of the minds on this issue when it was negotiated.

IV. RIGHTS TO ENFORCE

The counterpart of exploitation is enforcement, and here too, joint ownership presents pitfalls for the unwary.

A. ENFORCEMENT OF JOINTLY OWNED PATENTS

Normally, each joint owner of a patent must join a suit to enforce the patent against a third party. The rationales for this are two-fold: (1) to prevent defendants from suffering multiple suits on the same patent; and (2) to prevent a counterclaim of invalidity or unenforceability (if successful) from negatively affecting an absent joint owner. Consequently, any joint owner can kill a suit by refusing to join.

In general, any joint owner is free to refuse to join a suit initiated by another joint owner.[8] However, the courts have recognized one *exception*. A joint owner may have waived the right to refuse to join suit, for example, if it has granted the suing joint owner the right to sue unilaterally. Thus, many JV agreements involving joint ownership include such a provision. A joint owner who has waived the right to refuse to join the suit may be forced to appear as an involuntary plaintiff.[9]

Under Rule 19 of the Federal Rules of Civil Procedure, the involuntary plaintiff must be subject to service of process. But under the seminal Supreme Court case on point, *Independent Wireless*, 269 U.S. 459 (1926), being subject to service of process is not required. In light of this discrepancy between the statute and the case law, joint owners wishing to be able to freely sue should not only grant each other the unilateral right to sue, but should also: (a) require a covenant to join any litigation; and (b) consent to the exercise of personal jurisdiction by the relevant courts. The foregoing provisions would seemingly allow any joint owner to unilaterally sue third parties (overriding the default provisions of U.S. patent law, if that is what the parties desire).

However, there is also an *exception to the exception* that makes the foregoing virtually moot: the grant of a license (even post-suit) by the non-suing joint owner limits the relief a suing joint owner can obtain by exercising its unilateral right to sue. *Schering v. Roussel*, 104 F.3d 341 (Fed. Cir. 1997).

More specifically, a nonexclusive license (even post-suit) will protect the defendant from liability for post-grant damages, and will also prevent the suing joint owner from obtaining injunctive relief.

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8. See, e.g., *STC.UNM v. Intel* (Fed. Cir. Jun. 6, 2014).
9. Conversely, a joint owner that has *not* waived its right to refuse to join *cannot* be joined involuntarily. That is, a joint owner's right to refuse to join – being a substantive right under patent law – trumps involuntary joinder under Rule 19, which is merely procedural. *STC.UNM v. Intel* (Fed. Cir. Jun. 6, 2014).

But the nonexclusive license is ineffective as to pre-license damages, unless an agreement between the joint owners allows the grant of such relief. *Id.* at 345.

But if the non-suing joint owner grants the defendant an exclusive license (even post-suit), the non-suing joint owner can no longer consent to join the suit, which must therefore be dismissed. *Ethicon*, supra. The *Ethicon* court did not clearly state its reasoning, but one possible rationale is that an exclusive licensee of a patent also has standing to sue under the patent, and thus, would itself be an indispensable party.[10]

The bottom line is that a non-suing joint owner, by grating a license to a third party, can limit and/or cut off another joint owner's right to sue – even if the agreement between the joint owners contains a unilateral right to sue and a covenant to join any litigation.[11]

Finally, another Federal Circuit case has taken yet another approach to the general issue of joinder of joint owners. In *Utah v. Max-Planck* (Fed. Cir. Aug. 9, 2013) – a case which goes against the weight of authority and muddies the water – the majority held that patent joint owners should be joined if feasible, but they are not necessarily indispensible under Rule 19. In *Utah*, the majority held that there is no patent-specific exception to Rule 19's general requirement to conduct an indispensability analysis, and that the missing joint owner's interest was adequately represented because: (a) the other owners were participating in the litigation; (b) those joint owners were represented by joint counsel; and (c) the missing joint owner contractually ceded control of the litigation to one of the participating joint owners. It is difficult to see how a first joint owner ceding control to a second joint owner shows that the first joint owner's interests are adequately represented. Indeed, many observers would say that the first joint owner's interests were not represented at all, but simply waived. And even if

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10. This general principle is certainly true in an exclusive license under a solely owned patent. See, e.g., *Ortho Pharmaceutical v. Genetics Institute*, 52 F.3d 1026 (Fed. Cir. 1995). However, the Federal Circuit panel has not addressed the issue in the case of an exclusive license from one (but not all of) the joint owners of a jointly owned patent. However, one district court has held that such an exclusive licensee of a jointly owned patent would not have any standing to sue in that situation. *EBS Automotive Services v. Illinois Tool Works* (S.D. Cal. 2011).
11. The suing joint owner would presumably have a breach of contract action against the non-suing joint owner, and might even be able to recover the non-suing joint owner's licensing royalties or the fair market value of a license. However, this is of little comfort to a suing joint owner whose competitor may have been licensed by the non-suing joint owner!

the missing joint owner had been willing to entrust control of enforcement to another joint owner, that does not necessarily imply a willingness to cede the defense of counterclaims of invalidity (which was one of the classic reasons for joining joint owners).

One implication of *Utah* is that parties to an agreement will need to draft more carefully (and in more detail) to effectuate the desired outcome regarding joinder, while at the same time increasing the likelihood that their contract will be second guessed by a court during litigation. Indeed, the *Utah* dissent argued that the majority decision was wrongly decided, not only legally, but also factually, because (according to the dissent) the missing joint owner's ceding of control was conditional, not absolute.

It remains to be seen whether *Utah* is good law. The critical question is whether (as many observers had believed), because of the special nature of patents, there is effectively a *per se* rule that joint owners (and patentees and exclusive licensees) are indispensable, or conversely, whether indispensability should be evaluated on a case-by-case basis.

The answer is far from clear. Post-*Utah*, a more recent case from the Federal Circuit goes back in the direction of joint owner indispensability. [12] In *STC.UNM v. Intel* (Fed. Cir. Jun. 6, 2014), the majority opinion held that the default rule is that a joint owner has the absolute right to refuse to join a litigation of the jointly owned patent. Therefore, unless the joint owner has waived that right, it cannot be joined (even involuntarily under Rule 19) and the suit cannot proceed. That is, a joint owner's right to refuse to join – being a substantive right under patent law – trumps involuntary joinder under Rule 19, which is merely procedural. The majority opinion in *STC.UNM* did not use the term "indispensable" but it was clearly implied.

B. ENFORCEMENT OF JOINTLY OWNED COPYRIGHTS

Under U.S. copyright law, an owner of any of the exclusive rights[13] of copyright can sue to enforce the copyright. A court may (but is not

12. Apart from joint ownership, the *STC.UNM* case has also generated some independent controversy of its own. In dicta, the majority opinion noted that in the case of an exclusive license, the licensor stands in a position of trust to the licensee, and therefore cannot refuse to be joined in a suit by the exclusive licensee.
13. In the copyright sense, rather than in the licensing sense. The exclusive rights include the rights of reproduction, distribution, public display, public performance, and others set forth in 17 U.S.C. 106.

required to) require joinder of other owners of exclusive rights (including joint owners). In addition, the court will permit intervention by any person having an interest in the copyright. See 17 U.S.C. 501(b).

The same principles also apply to suits by joint owners.

The foregoing shows that U.S. copyright law presents somewhat fewer obstacles (than U.S. patent law) for enforcement of jointly owned copyrights. Thus, any contractual provisions that the joint owners negotiate to facilitate (or prevent, as the case may be) unilateral enforcement of patents should also suffice for copyrights.

V. ENFORCEABILITY OF CONTRACTUAL AGREEMENTS AMONG THE JOINT OWNERS

The foregoing shows there can be vast differences in default rules for different IP types, as well as under different national IP laws.

The wise joint owner will, therefore, negotiate provisions in the JV agreement setting forth, in detail, their respective rights and obligations. For example, these might include covenants not to unilaterally exploit, covenants to share royalties, covenants to join suit, etc.

But how useful are such covenants? While they are better than nothing, they may not always be enforceable.

A. AGAINST BONA FIDE PURCHASERS FOR VALUE

Suppose, for example, that the joint owners have agreed not to unilaterally exploit a jointly owned IP asset for the benefit of third parties. Such covenants may not be enforceable against a third party who is a bona fide purchaser for value ("BPV") from one of the joint owners. Most applications of this doctrine arise from situations where the BPV purchased a product (e.g., one covered by a jointly owned patent) from one of the joint owners.

B. AGAINST BONA FIDE LICENSEES FOR VALUE

Can the BPV doctrine similarly be applied to uphold a license given by a joint owner in breach of a contractual covenant not to grant third party licenses?

There is no Supreme Court or Federal appellate court authority directly on point, but the situation is analogous to a patent license granted by a fraudulent assignee of the patent. One panel of the Federal Circuit has held that an exclusive patent license given for valuable consideration is valid, even though the assignment of the

underlying patent to the licensor was later rescinded for fraud. *Heidelberg Harris v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998). However, a later decision of the Federal Circuit has distinguished *Heidelberg Harris* on the facts, and as "not binding authority." *Rhone-Poulenc Agro v. DeKalb Genetics and Monsanto*, 284 F.3d 1323 (Fed. Cir. 2002) (*en banc*).

Conversely, at least one district court has held that a patent joint owner's license to a third party is valid, despite the recording in the U.S. Patent Office of a contract prohibiting either joint owner from selling its interest without the consent of the other joint owner. According to the district court, such an agreement is not a "recordable instrument," within the patent statute that authorizes recordation as a means of providing constructive notice (35 U.S.C. 261). Therefore, the recordation of such a covenant does not provide notice to a subsequent licensee of a joint owner of the patent. *Talbot v. Quaker State Oil*, 28 F. Supp. 544 (W.D. Pa. 1938); *aff'd.*, 104 F.2d 967 (3rd Cir. 1939).

Providing constructive notice to third parties is less of a problem in the case of copyright, since the copyright statute expressly provides that "any … document pertaining to a copyright" may be recorded with the U.S. Copyright Office. 17 U.S.C. 205(a).

C. AMONG THE JOINT OWNERS

Putting aside the question of third parties, one would at least expect that a contractual agreement among the joint owners should be enforceable against the joint owners themselves. For example, a joint owner's covenant not to use for itself should be enforceable against that joint owner. owever, in some situations, even this may not be true.

1. Commingled Patent Claims

As one example, consider a situation where the joint venture parties have contractually allocated the IP as being solely v. jointly owned, but then commingle the solely & jointly owned claims in a single patent application. Such was the fact pattern in the *Lucent* case (supra). Since one cannot divide ownership of patent on a claim-by claim basis, the court held that the entire patent was jointly owned.

The facts of the case are as follows. AT&T and Fraunhofer had entered into a JV to develop encoding/decoding software which later became part of the MP3 audio standard. The JV agreement provided that each party's preexisting IP would remain solely

owned by that party, and that all newly created IP (i.e., during the JV) would be jointly owned. AT&T then filed a patent application commingling claims to its solely owned IP (developd prior to the JV) and the jointly owned IP (developed during the JV). Microsoft, whose Windows Media Player used MP3 audio, took a patent license under all of Fraunhofer's IP. Later, Lucent (AT&T's successor) sued Gateway (and Dell) for patent infringement by shipping Windows Media Player with their PCs. Microsoft intervened, arguing that Fraunhofer was a joint owner of the entire AT&T patent, and thus Windows Media Player was licensed. Lucent argued that Fraunhofer was only a joint owner of certain claims of the patent (those created during the JV). The court agreed with Microsoft. Thus, the intent of the JV agreement was thwarted, and Lucent lost the ability to enforce what should have been solely owned IP against tens (or hundreds) of millions of copies of infringing software. This case illustrates the critical importance of proper coordination between patent counsel and licensing counsel.

2. Bankruptcy

As another example, if a joint owner goes bankrupt, the trustee (in a liquidation) or debtor-in-possession ("DIP") (in a reorganization) generally has the power to either assume (i.e., sustain) or reject (i.e., abandon) a contract[14] held by the bankrupt party. 11 U.S.C. 365(f).

Suppose the trustee/DIP assumes the JV agreement containing contractual provisions regarding IP. Having sustained the contract, the trustee/DIP has the power to keep it with (and enforce its obligations against) the original party (the bankrupt joint owner), in which case the *status quo* is maintained.

However, the trustee/DIP also has the authority to *assign* the JV agreement to a third party. For example, this might occur incident to the trustee's/DIP's transfer of the bankrupt joint owner's IP rights to a third party. Effectively, this would divest the bankrupt joint owner of its joint ownership rights, and vest those rights in a new joint owner (i.e., the third party). The problem is that the non-bankrupt original joint owner could find itself unwittingly restricted by (e.g., if the contractual agreement imposed use restrictions), or conversely unprotected from (e.g., if the contractual agreement allowed unrestricted use), a competitor!

14. Subject to some exceptions, which will be discussed in Section VII.C below.

Conversely, if the trustee/DIP rejects (i.e., breaches) the JV agreement, the non-bankrupt joint owner could lose the benefit of all the contractual provisions restricting the activity of the bankrupt joint owner.

Indeed, the non-bankrupt joint owner could find itself in a situation even worse off than if all IP had been owned by the bankrupt joint owner, with a license back to the non-bankrupt joint owner. In that scenario, the non-bankrupt joint owner could have exercised the right to retain the license (and its attendant covenants) under 11 U.S.C. 365(n), which protects a licensee's IP rights when the licensor goes bankrupt. Sometimes, it is better to be a licensee than a joint owner!

D. IN VIOLATION OF APPLICABLE LAWS

Finally, contractual agreements among joint owners may be unenforceable if they violate applicable laws. For example, in Europe, contractual terms regulating ownership and allocation of rights to inventions resulting from joint R&D are subject to the provisions of Article 81 of the EC Treaty, and certain restrictions or obligations may be unenforceable thereunder.[15]

E. PRE-ENFORCEMENT CHECKLIST

In light of all of the foregoing, if you are (or believe you may be) a joint owner, you need to fully understand the obligations owed to, and ensure the cooperation of, your other joint owners prior to seeking to enforce a jointly owned IP asset. Otherwise – like the plaintiff in Ethicon – you could find yourself committing significant amounts of time and money in a fruitless endeavor. The checklist below summarizes some key issues to investigate prior to enforcement.

1. Are You Really an Owner?

In order to sue for infringement, you must have legal title at the time of filing the suit. Legal title is transferred by an assignment. In the case of Federal IP rights (patents, copyrights, etc.), the assignment must be in writing. If your ownership interest arose

15. Jeremy Brown, "Allocations of Ownership of Inventions in Joint Development Agreements – The United Kingdom Perspective," *Les Nouvelles* (Journal of the Licensing Executives Society), December, 2000, pp. 173-175.

other than through inventorship, did the necessary assignment actually occur?

A large percentage of contractual assignment clauses are defective in that they only contain promissory language (e.g., "A promises to assign to B," "the patent shall be owned by B," etc.) rather than a true assignment (e.g., "A hereby assigns to B"). The former conveys no title at all, not even equitable title. It is a mere promise. See *Arachnid v. Merit Industries*, 939 F.2d 1574 (Fed. Cir. 1991) and *IPVenture v. Prostar Computer*, 503 F.3d 1324 (Fed. Cir. 2007). In contrast, the latter conveys legal title if the IP asset exists at the time of assignment. Even if the IP asset does not yet exist, a present assignment of future interest conveys equitable title, which automatically converts to legal title when the IP asset comes into existence (e.g., upon patent issuance). See *FilmTec v. Alled-Signal*, 939 F.2d 1568, 1573 (Fed. Cir. 1991).

If you did not actually receive assignment of the ownership interest, you must get an assignment prior to filing suit. Furthermore, in order to sue for pre-assignment infringement, the assignment must expressly include the right to sue for past damages.

2. Are There Any Joint Owners?

Oftentimes, an IP owner mistakenly believes he is the sole owner of an IP asset, when in fact he is a joint owner with others. For example, there may be omitted inventors on a patent (as in Ethicon), or long-ago and now forgotten joint development contracts. Pre-enforcement diligence regarding inventorship and/or collaboration history can identify overlooked joint ownership situations, and allow you to negotiate any necessary remedial covenants (e.g., consents, sharing of recoveries, etc.) before commencing enforcement.

3. Can the Non-Enforcing Joint Owner be Bought Out?

Sometimes, you can convince a non-enforcing joint owner to assign his ownership interest to you, in exchange for a share of the returns. This kind of agreement (if it can be reached) is the cleanest solution of all, as it removes the complications of joint ownership entirely.

4. Is There a Joinder Obligation?

Assuming you cannot buy-out the joint owner, is he obligated to join your suit? This obligation is typically expressed as a joinder

clause in a contractual agreement between the joint owners. However, a clause giving you the "unilateral right to sue" also has the same effect. If your joint owner is not obligated to join your suit, try to get his agreement before commencing enforcement (when you have more leverage), rather than during trial (when your joint owner may have more leverage).

5. Jurisdiction

If you cannot get a promise to join, it may still be possible to join your joint owner involuntarily (under F.R.C.P. Rule 19). However, some courts may deny involuntary joinder unless the joint owner is subject to service of process. Look for – and negotiate if needed - an acknowledgement of personal jurisdiction in the court where you want to file suit.

Involuntary joinder is more likely to be an issue if your joint owner is a large company in an industry with a history of resolving disputes via licensing instead of litigation. Large companies often refuse to give joinder covenants, because they don't want to be perceived as willingly cooperating in offensive litigation – either for PR reasons, or because their competitors have large IP arsenals with which to countersue. Instead, such large companies may prefer (often with a wink-and-a-nod) to be involuntarily joined in litigation.

6. Is There a Non-Licensing/Non-Interference Obligation?

Even if your joint owner has agreed to joinder, and/or to acknowledgement of jurisdiction, joinder may be infeasible once the joint owner grants a license to the defendant. Thus, it is also beneficial to have (or to negotiate) an express non-licensing or non-interference covenant.

7. Obligations to Inform, Consult With, and/or Get Consent

Are there any obligations to inform, consult with, or get the consent of the joint owner? To what extent is your joint owner permitted to participate, especially with counsel of his own choosing? If so, can you get him to waive this right and give you sole control?

8. Cost Sharing

Are there any cost-sharing obligations, such as an obligation to pay your joint owner's attorney fees if he decides to participate in the litigation?

9. Recovery Sharing

What is your obligation to share recoveries? Remember, this can arise by default (e.g., under U.S. copyright law) or by contract. Here, clarity is the goal. It's better to negotiate a comprehensive and well-defined formula for sharing recoveries ahead of enforcement, rather than living with an ambiguous provision that may cause disputes among the joint owners.

10. Defense of Counterclaims

As the enforcing joint owner, do you have any obligations to defend the non-enforcing joint owner against possible counterclaims by the defendant?

11. Foreign Rights

Finally, if you are considering a multinational enforcement program, try to ensure that you also have all necessary rights under foreign legal regimes so you can conduct a consistent enforcement campaign in all necessary jurisdictions.

VI. AVOIDING THE PITFALLS OF JOINT OWNERSHIP

A. IF JOINT OWNERSHIP IS UNAVOIDABLE, CONTRACT CAREFULLY

Given all the pitfalls of joint ownership, it is preferable to avoid it entirely. However, sometimes joint ownership is unavoidable. For example, the other side may refuse to enter into the JV on any other terms. If so, you will have to make the most of a suboptimal situation. First, make sure you think through *all* the possible issues. Plan for every possible scenario, and leave nothing to chance. Then draft contractual provisions specifying and regulating all the joint owners' rights and responsibilities. Finally, think about how to get around potential problems associated with enforceability of those provisions, such as creative ways to give notice to third parties who might otherwise be protected under the bona fide purchaser doctrine.

B. ALTERNATIVES TO JOINT OWNERSHIP

1. Relevant Considerations

Even when the parties recognize and wish to avoid the pitfalls of joint ownership, they may lack sufficient experience to know what else to do. As counsel, you will have the burden of devising and advocating an acceptable alternative. It is critical for counsel to get involved early (e.g., at the term sheet stage), before the parties (either of their own volition or, because of lack of knowledge, or through the advice of well-meaning but ill-informed advisors) have committed to joint ownership, so that other alternatives can be still be considered.

Two important considerations affecting alternative IP allocation possibilities are: (1) whether the IP in question is background or foreground IP; and (2) whether the JV is contractual or entity-based.

a. Background IP

Even before the JV is formed, one or more of the parties may possess IP that is relevant to the JV. Because such IP is typically preexisting, it is commonly referred to as "Background IP". The term may also refer to IP, relevant to the JV, that is created during the term of (but independently of the parties' participation in) the JV. In either case, the JV[16] will need to have the ability to use the Background IP. Typically, the Background IP will continue to be owned by the party who developed it, with an appropriate form of license to the JV. The license would typically include a field of use limitation appropriate to the operational sphere of the JV. If the licensor is willing to make a strong commitment to the JV, the license might be exclusive. Otherwise, it might be nonexclusive. Yet another possibility is for the Background IP to be assigned to the JV, with an appropriate form of license back to the party that contributed it. The choice of assignment v. exclusive license v. nonexclusive license will depend on factors such as: (1) the relative degrees to which the grantor and the JV need

16. Which, for purposes of this subsection a, may mean another party or a JV entity, depending on whether the JV is contractual or entity-based. This distinction will be discussed in greater detail in the next subsection.

the Background IP; (2) whether the Background IP is being contributed as a form of consideration; (3) the form of grant under which the other party(ies) are or are not willing to contribute their IP; (4) the availability of favorable tax treatment for assignment v. licensing; and/or (5) whether the grantor views the JV as a permanent or a short term commitment. In the remainder of this article, it will be assumed that the grant takes the form of a license, since that is much more frequently done than an assignment.

b. Contractual v. Entity-Based JV

The detailed terms of the license will depend on whether the JV is contractual or entity-based. In a contractual JV, the parties cooperate with each other to jointly develop some technology, content or other subject matter. Then, each party is allowed to use the developed subject matter in connection with its business. Accordingly, each party would grant a license under its relevant Background IP to the other party. Such a license would typically include a field of use limitation. The parties may compete in the same or overlapping fields of use, or they may mutually agree on distinct fields of use.

As an example of the former, in an early-stage, research-focused R&D consortium, semiconductor companies might collaborate to develop fundamental technology and establish a common standard for a new semiconductor architecture. Later, at the product development stage, the companies might be free to incorporate that technology into their respective product lines, which would compete in the marketplace.

As an example of the latter, companies in two different areas (e.g., cellular telephony and Internet browsers) might collaborate to develop technology at the intersection of their respective businesses (e.g., special software for Web browsing in wireless applications). The cellular network provider might be given the exclusive right to license the jointly developed software to cell phone manufacturers, while the browser company might be given the exclusive right to license the software to application server manufacturers.

In an entity-based JV, the parties form a separate entity to conduct their joint endeavors. In the cellular telephone example above, the parties might contribute capital, technology, and/or personnel to a LLC (or other form of corporate entity) which

then conducts all activities in the field of the JV. Accordingly, each party would typically grant a license under its relevant Background IP to the JV entity, but not to the other party separately from the JV.

c. Foreground IP

In addition to Background IP, new IP will typically be created by one or more of the parties during the JV (whether contractual or entity-based). Such newly created IP is typically referred to as "Foreground IP".

In the case of an entity-based JV, the Foreground IP will typically vest in the entity, so that no allocation of ownership rights is required. The only question is how to deallocate IP ownership in case the entity is later dissolved – a topic that will be addressed in Section IV below.

In the case of a contractual JV, ownership of the Foreground IP would initially vest in the party or parties employing the personnel who created the Foreground IP. For IP developed solely by the employees of a single party, such solely-developed IP would initially vest in and typically remain owned by that party, with a license to the other party. Just as with the Background IP, the Foreground IP license might be field-of-use limited, and might be exclusive or nonexclusive.

For IP developed by the employees of multiple parties, such jointly-developed IP would initially vest in the parties as joint owners. In order to avoid such joint ownership, the parties will have to re-allocate ownership according to one of the alternatives discussed in the next section.

2. Structural Alternatives

This section presents various structural alternatives to joint ownership for contractual JVs. All of these involve allocating ownership (via assignment) to one or more of the parties, then granting some form of license back to the non-owner(s). In order to avoid later disputes (especially once the developed IP becomes regarded as a valuable asset), the assignment and grantback license should be negotiated and granted in advance, preferably before the parties undertake any activity pursuant to the JV. That is, IP allocation should be addressed in the JV agreement itself, at the time the JV is formed. Typically, these allocation procedures will not be

needed in an entity-based JV, because the JV should be structured so that all of the IP is created within, and belongs to, the JV itself. But if that is not the case, the allocation mechanisms discussed below can be readily adapted to the entity-based JV, by simply regarding it as one of the parties.

a. All Owned by One Party with License Back

One of the simplest structures involves assigning ownership of all IP assets to one party with an field of use license back to the other(s). This is most practical when one party has significant leverage in the relationship (e.g., because it is significantly larger, is contributing more money, or is contributing core technology). In those situations, the dominant party is often in a position to insist on ownership of all IP arising out of the relationship. The other party should, of course, expect to be granted a license (possibly an exclusive one) for its field of use.

It is critical to realize that this type of IP allocation may be perceived as being unfair unless the dominant party lays the proper foundation at a very early stage. For example, both the business principals and attorneys for the dominant party should slant the relationship toward hiring the other party as a developer (rather than as a collaborator) starting from the earliest exploratory negotiations. Conversely, a party wishing to avoid this structure, should try to slant the relationship toward one of mutual collaboration.

This structure, because of its simplicity, is especially useful for messy deals. For example, when 3 or more parties are involved, there are too many combinations of inventorship or authorship (e.g., A+B+C v. A+B v. A+C v. B+C v. A v. B v. C) to handle via joint ownership.[17] For similar reasons, this structure is also particularly useful where the relationship is one that will be very long-term (e.g., involving many product

17. Assuming (as is usually the case) that the parties allocate IP such that ownership tracks inventorship. Of course, one could take a brute force approach and simply allocate all the IP as owned jointly by all 3+ parties. Even so, the parties will have to negotiate their contractual rights and obligations. In the author's experience, getting even 2-party joint owners to agree on exploitation and enforcement can be frustratingly difficult. As more parties are involved, this becomes exponentially more difficult.

development teams and life cycles) and/or involve complicated technology development interrelationships.

b. Allocate Ownership by Field of Primary Relevance

A second alternative involves allocating ownership of IP assets on an item-by-item basis, with grantback licenses as needed. For example, an item of Foreground IP development that is primarily related to (or is derived from) one party's Background IP or to its field of use, would be assigned to that party with an appropriate license back to the other party(ies).

This structure is particularly useful for relatively well-defined deals, where the parties' businesses are sufficiently distinct, and the development process sufficiently compartmentalized, that one can clearly determine who did what, when and how.

The attorney's principal responsibility in this scenario is to craft (again, at the time the parties form the JV) clear and workable mechanisms for the "primarily related" test, as well as procedures for efficient and fair resolution of the inevitable disputes.

c. Owned by Separate Entity

A third alternative does not allocate any IP to the individual parties. Instead, the IP is assigned to a separate entity in which the parties are members. As with the first structure above, this is useful for messy deals because it encapsulates all the complexity into a single body.

Indeed, this structure simply mirrors the default solution for entity-based JVs, except that the entity is expressly formed for the purpose of holding the IP rather than automatically arising upon forming the JV. The parties manage, participate in, and share risks/returns via their equity ownership in the entity and/or pursuant to a negotiated governance structure.

The JV entity can grant any needed licenses to the parties, as well as license third parties or undertake enforcement actions. Thus, this structure is particularly useful where one of the principal goals of the parties is external exploitation. Administration by a single entity tends to maximize revenue by avoiding the race-to-the-bottom scenario and other pitfalls associated with competitive licensing by individual joint owners.

This structure is also particularly advantageous where the entity is a pure IP holding company, because the holding company faces little risk of countersuit – it is not performing any infringing act because it never makes or distributes a product!

VII. IP EXIT STRATEGIES

The final issue is that of IP exit strategies (sometimes referred to as "IP deallocation"). This is the area where IP law and family law intersect, as the IP attorney's task is essentially to draft an "IP prenuptial agreement." This is particularly important when IP assets are held by a JV entity in which the parties are members (e.g., a joint venture entity such as an LLC), and some or all of the members wish to dissolve the entity.

The key issue is how to dispose of the IP assets held by JV entity. Such IP assets typically include both: (A) IP assets owned by the entity ("Owned IP") such as patents, copyrights, trade secrets and trademarks; and (B) licensed-in IP rights ("Licensed IP") such as inbound IP licenses (i.e., contracts). The Licensed IP, in turn, includes: (1) licenses from third parties ("3P Inbound Licenses"); and (2) licenses from the members ("Member Inbound Licenses"). By definition, all the IP that must be deallocated will fall into one of these categories.

A. MERGER OR ACQUISITION OF JV

One common exit scenario involves merger or acquisition of the JV. If the members want to promote the JV as a potential merger or acquisition target, they should negotiate and draft all contracts for Licensed IP to be freely transferable upon change of control. All too often, a merger or acquisition is derailed (or at least significantly delayed) because a key contract is not freely transferable, and the other party to the contract does not wish to give consent to the transfer (either at all, or without payment of additional consideration).

Sometimes, not all the members of the entity will favor the merger or acquisition. For example, suppose the acquirer is a competitor of a member holding a minority interest (whether in terms of equity or voting power) in the JV entity. The minority member will clearly not wish to proceed, yet could be overruled by other member(s) who hold a majority of the equity or voting power.

The attorney for the minority member should plan for this contingency at the time of entering into the JV agreement. Possible provisions to protect the minority member include: (a) termination of any

Member Inbound License upon change of control to a competitor of the relevant member; or (b) limiting the scope of such Member Inbound License post- acquisition to the portion of the acquirer's business represented by the JV pre-acquisition (a so-called "snapshot"), perhaps together with a limited zone of expansion.

Thus, even if the Owned IP and 3P Inbound Licenses are transferred to acquirer-competitor, at least the Member Inbound License will not end up in the hands of a competitor. Of course, such considerations are not limited to minority members, but could be relevant to any member contributing IP to the JV.

B. DISSOLUTION OF JV

Another possible exit scenario involves dissolution of the JV.

1. Owned IP

a. Protecting Members' Rights to Use

The members may want to protect their rights to use the Owned IP after dissolution. If so, provisions in the JV agreement could automatically allocate the Owned IP back to the members upon dissolution. Conceptually, deallocating IP owned by a JV entity to its members is virtually the same as allocating IP created in the course of a contractual JV to the individual members. Therefore, the possibilities set forth in Section VI.C above also apply here. The choices include: (a) assigning the Owned IP to the members as joint owners; (b) assigning the Owned IP to one member, with grantback licenses to the others; and (c) ending the operational aspects of the JV, but restructuring it as an IP holding company that can grant licenses to members, and/or license or enforce against third parties. Each of these choices was discussed in detail above, and need not be repeated here.

Important tasks for the members' attorneys at the time of negotiating the JV agreement are: (i) to provide procedures effecting at least one of the choices upon dissolution; and (ii) if that choice involves member grantback licenses, to (pre-) negotiate their scope (e.g., exclusivity, sublicensing, term, royalties, field, etc.).

b. Inhibiting Members' Rights to Use

At the other extreme, the members might wish to mutually inhibit their right to use the Owned IP upon dissolution. This would incentivize the members to remain in the JV rather than dissolve it and go their separate ways. The solution here is to provide that Owned IP cannot be assigned or otherwise returned to the members upon dissolution.

However, if the JV dissolves anyway, the Owned IP will become a wasted asset unless the JV can find a third party buyer. To prevent that from happening, the members may wish to provide for the JV to shrink down to an IP holding company.

As another alternative, one member could be allowed to buy out the other member(s), and thus gain control of the Owned IP. For example, if there are only two members, one can use the age-old "I cut , you choose" technique of fairly dividing a pie. Basically, one member assigns a valuation to the Owned IP. The other member can elect to either buy the Owned IP from the JV at that price, or allow the first member to do so. The proceeds to the JV are then disbursed to the members in accordance with their equity stakes.

2. 3P Inbound Licenses

3P Inbound Licenses are similar to Owned IP, except for having originated from a third party rather than from the JV itself. Therefore, the members usually wish to dispose of 3P Inbound Licenses in a similar fashion as Owned IP.

The contracts with the third parties under which the 3P Inbound Licenses were obtained will have to contain provisions allowing such disposition. A critical task for the attorneys for the JV to plan for such disposition at the time of negotiating the 3P Inbound Licenses. For example, key provisions in the 3P Inbound Licenses should address transferability (perhaps even to multiple members), sublicensing, etc.

3. Member Inbound Licenses

Member Inbound Licenses typically include background IP of the members, and are usually intimately related to the members' individual fields. Therefore, the JV agreement is typically structured to assign the Member Inbound Licenses back to the contributing member (equivalently, to terminate the license) upon dissolution.

Conversely, if the members wish to protect their rights to use other members' IP, they should structure the JV agreement to compel the owning member to grant equivalent field-of-use licenses upon dissolution.

C. BANKRUPTCY OF JV

Another possible exit scenario involves bankruptcy of the JV. This is relatively infrequent, because typically some member(s) will provide a cash infusion to buy out other(s). However, the prudent attorney will still plan for this contingency in advance.

As an attorney, the disposition you wish to achieve will be tested against whether it comports with the bankruptcy laws as they apply to IP. Therefore, it is important to understand those laws as a guideline to crafting provisions in the JV agreement as well as in the Inbound Licenses.

A key bankruptcy law principle is that *ipso facto* provisions (i.e., those triggered automatically upon bankruptcy) are unenforceable.[18] So avoid the urge to draft these, and instead, craft your "springing" provisions as based on likely bankruptcy precursors (e.g., degradation in performance, delays, etc.) rather than on bankruptcy itself.

Another key principle is that the bankruptcy trustee (or DIP) may assume and assign any executory contract[19] of the bankrupt party (even to a competitor of the other party to the contract).[20] Further, the threshold for whether a contract is "executory" (i.e., remaining, unperformed obligations on both sides) is quite low, and most IP contracts contain provisions (reporting, payment of royalties, obligations to honor license restrictions, etc.) that are sufficient to meet this test.[21]

Bankruptcy of the JV entity presents the same basic issue as merger or acquisition – protection of the members' interests. So, you should take the same precautions set forth in Section VII.A above, but beware of bankruptcy law surprises. For example, how can a member's interest in a Member Inbound License be protected when the bankruptcy trustee/DIP can assume and assign such license to a competitor of that member?

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18. See 11 U.S.C. 363(1), 11 U.S.C. 365(e)(1), 11 U.S.C. 365(f)(1), 11 U.S.C. 365(f)(3) and 11 U.S.C. 541(c)(1)(B).
19. Regardless of the content of the assignment (or anti-assignment) clause.
20. 11 U.S.C. 365(f).
21. See, e.g., *In re CFLC*, 89 F.3d 673, 677 (9th Cir. 1996) (licensor obligation not to sue licensee; licensee obligation to mark products).

The answer lies in another provision of bankruptcy law,[22] which further provides that the power to assume and assign is inapplicable where some form of relevant non-bankruptcy law excuses the non-bankrupt party from accepting performance from other than the bankrupt party. Essentially, this requires the Member Inbound Licenses to construed as personal.

Inbound IP licenses, like personal services contracts, are generally held to be personal.[23] You can use this to your advantage by drafting a Member Inbound License to emphasize "special skills" of the JV and "IP" aspects of the grant.[24] In this way, you may be able to defeat assignment of that Member Inbound License to a competitor.

D. BANKRUPTCY OF LICENSOR TO JV

Another bankruptcy-related scenario involves bankruptcy of a licensor to the JV, rather than of the JV. Here, the paramount concern is protecting the JV's ability to operate.

The licensor could be a third party (providing to the JV a 3P Inbound License) or a member (providing to the JV a Member Inbound License).

The bankruptcy act generally provides that the bankruptcy trustee/DIP can reject (i.e., abandon) any executory contract. 11 U.S.C. 365(a). However, there is an exception for "intellectual property" licenses. 11 U.S.C. 365(n). So, to prevent a trustee/DIP from abandoning an Inbound License upon bankruptcy of the licensor, include a provision in that license characterizing it as "subject to 11 U.S.C. 365(n) of the U.S. Bankruptcy Code." Just as importantly, try to structure the license to fall within the definition of "intellectual property" in the bankruptcy code. The definition of "intellectual property" includes patentable inventions, copyrightable works of authorship, trade secrets, and mask works.[25] However, "intellectual property" does not include trademarks, meaning trademark licenses are not subject to the protection of 11 U.S.C. 365(n) and can be rejected. Some practitioners

22. 11 U.S.C. 365(c)(1).
23. See, e.g., *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996) (nonexclusive patent license); *In re Patient Education Media*, 210 B.R. 237, 242-3 (Bankr. S.D.N.Y. 1997) (nonexclusive copyright license); *In re Hernandez*, 2002 Bankr. LEXIS 1701 (Bankr. D. Ariz. 2002) (exclusive patent license); *Gardner v. Nike*, 279 F.3d 774 (9th Cir. 2001) (exclusive copyright license).
24. It's not enough to rely on an anti-assignment provision, because the bankruptcy court will ignore this. See 11 U.S.C. 365(f).
25. 11 U.S.C. 101(35A).

believe that bankruptcy courts may treat trademark licenses as subject to 365(n) if the trademark license is inextricably intertwined with other IP licenses that are subject to 365(n). So, under this view, if you're worried about bankruptcy of a trademark licensor, intertwine the trademark license in conjunction with other IP licenses. The countervailing view, however, is that intertwining trademark and non-trademark rights may lead to treatment of the entire license as outside the scope of 365(n)—and thus rejectable. Time will tell which of these competing views is correct.

Finally, remember that the protection of 365(n) is not automatic. Rather, the party wishing to avail itself of 365(n) must affirmatively notify the court of its election. To facilitate this, include a provision in the license agreement that a bankrupt licensor must notify the JV upon (or in advance of) filing for bankruptcy protection.

VIII. CONCLUSION

When negotiating joint ventures or strategic alliances, resist the urge to use joint ownership to allocate IP rights. Instead, try for some variation of assigning IP rights to one party, with suitable licenses back to the others. The IP rights may even be held by a non-party entity, perhaps the JV entity (e.g., some form of LLC) or a shell company formed for this purpose and owned and managed by the parties.

But if joint ownership is unavoidable, remember not to rely on default rules, since the joint owners' rights to exploit will vary from IP type to IP type (e.g., patent v. copyright) and from country to country (e.g., U.S. patent v. Japanese patent). Also remember to think about litigation (e.g., joinder) issues, since the rules for enforcement also vary across asset types and countries. It is critical to plan for and negotiate the parties' expectations for every contingency, in advance, and to memorialize those expectations in the form of contract provisions in the JV agreement. But be aware that such provisions may not be enforceable against innocent third parties.

Think also about how you want to end the JV or alliance, and plan your IP deallocation accordingly. Think about the objectives (e.g., empowering members to freely operate v. restricting members), and remember that you will likely need separate provisions for IP owned by the JV, IP licensed in from third parties, and IP licensed in from members.

The watchword for counsel negotiating IP-related JVs and strategic alliances is to plan ahead, so they are in control of what happens, rather than being at the mercy of the situation!

NOTES