GETTING YOUR IP RIGHT AND MANAGING CO-OWNERSHIP

The protection and management of intellectual property during the life-cycle of a business is becoming increasingly important to nearly all businesses but particularly to those innovative companies that are leading the way through the commercialization of new ideas.

Such companies are increasingly finding that, from first concept to realization of income, it is difficult to manage every aspect of invention, development, evaluation and exploitation alone. Many such activities may be contracted out in which case it is essential that the relationship with the contractor is properly regulated to ensure that the IP position reflects what the parties truly intend that the commissioner of the works secures the rights that it needs (see the paragraph on subcontractors below).

Alternatively businesses may prefer a more equal collaboration, or joint venture, with another company, differing in its range of skills or resources. In the context of such a collaboration, the question arises of who owns any intellectual property rights used in or arising out of the collaboration; and in the latter case is it the person who does the work, or the person who funds it?

The parties to a collaboration will need to decide:

- How are the benefits from exploitation to be shared?
- Who can exploit the IP so created?
- Are there any restrictions on exploitation of the intellectual property and if so, what are they?

Collaboration raises a number of important legal issues relating to the ownership and exploitation of intellectual property rights arising therefrom (including the exploitation of pre-existing rights necessary to enjoy the benefit of the newly developed rights).
Is co-ownership the simplest solution? Possibly not.

Most intellectual property rights can be jointly owned, and it is often suggested that the use of this mechanism provides a simple and natural approach to sharing rights in the fruits of collaborative research. However, co-ownership of intellectual property rights is in practice rarely desirable, except perhaps in very special circumstances, as its consequences vary from jurisdiction to jurisdiction and may differ as between types of intellectual property right.

If the co-owners do not agree any particular arrangement, then the law in the UK provides a "default" position as follows: unless agreed otherwise, where a patent or registered trade mark is granted to more than one applicant, each applicant (co-owner) has an equal undivided share in it. This means that:

a) Each co-owner is entitled to use the rights without needing the consent of the other co-owners, i.e. if you fall out with your co-owners they will be able to carry on using the rights without needing your agreement. This can be particularly dangerous in the question of a trade mark and may lead to invalidation of the trade mark registration. This provision of course does not necessarily mean that use of the rights does not infringe the rights of third parties.

b) None of the co-owners may grant a licence, or assign or mortgage their share of the rights, without the consent of all the other co-owners. Therefore, if one co-owner wishes to use the rights by licensing a third party, it is important to reach agreement on this.

c) Upon the death of one of the co-owners, that owner's share devolves to his or her personal representatives and not to the other co-owners.

These comments apply equally to patent applications, patents, trade mark applications and registered trade marks. The law does not set out any "default" position for registered designs or other rights and it is therefore even more important that written agreement is reached in such cases. Even if the "default" arrangement set out above is acceptable to all co-owners, there are other matters on which the co-owners should reach written agreement in order to avoid disputes in the future. For example, an agreement between co-owners should define the responsibility for paying renewal fees, suing infringers and resisting revocation of the rights by others, together with responsibility for the costs involved.

This can severely restrict the commercial exploitation of the invention by a non-manufacturing co-owner. In contrast, the US provides considerable freedom for co-owners to exploit jointly held patent rights, thereby allowing one party to devalue such rights by, for example, licensing them at a low royalty.

In light of the above, at the time of entering into the agreement, the collaborators should establish how ownership of the results is to be determined and how the rights to exploit the resulting technology are to be allocated between them. Failure to do so will result in each collaborator being entitled to exploit its own developed technology (and its related intellectual property) to the exclusion of the technology (and its related intellectual property) developed by the other collaborators on the project. Adequate protection of the results is essential. Without something to
protect, there is nothing to share. Failure to ensure that such provisions are included in the collaboration agreement will dilute the benefit of each of the rights and therefore reduce the likelihood that each collaborator will achieve its goals.

It is therefore important to address each of the following issues in any agreement dealing with a situation in which there may be new technology:

**Who is to do the work?** The R&D will be performed by individuals whose particular relationship with the employing or contracting collaborator needs consideration. Therefore, the safeguards appropriate in relation to commissioned research, for example when contractors use independent consultants, apply equally to collaborative research as if each collaborator were a contractor of the other. Appropriate safeguards are particularly important in a collaboration. It is essential that an invention does not belong to some other third party to the collaboration who, in the absence of a subsequent written agreement transferring title to any such invention (and the right to apply for protection) to the commissioning collaborator, could assert any resulting patent against any of the collaborators in their exploitation. Similarly, each collaborator should ensure that, under the contractual arrangements with its own staff and contractors, it is not exposed under any such warranty and such staff or contractors may not prevent its exploitation of any arising intellectual property rights. See “Do your subcontractors own your IP?” below.

**Ownership of results.** The agreement will typically provide that rights in and to inventions and all other technical knowledge resulting from developments made in the course of the project will (together with the right to seek protection for these) belong to the inventing party. Although this does little more than confirm the status quo and does not vary what would naturally arise, it does serve to make it clear that, except as otherwise expressly provided, the other collaborators have no say as to filing and prosecution policy. The contract should not provide for any inventions to be "jointly owned" by the collaborators (see box, Co-ownership as a simple alternative?).

**Filing and prosecution policy.** What is considered to be patentable (or worth patenting) is subjective and therefore cannot be provided for in the agreement with sufficient certainty to protect the interests of the other collaborators. Therefore, if the interests of the inventing collaborator do not justify filing for patent protection for an invention of interest to another, provision should be made allowing that other party to insist on such protection (perhaps at that other party’s expense) if patent protection is not sought by the inventing party within a given period. Similar issues arise as to the territorial filing policy for any particular invention. The exploitation needs of another collaborator may call for filing more widely than is usual for the inventing party. Again there should be provision for any non-inventing party, at its option and expense, to call for an inventing party to file, prosecute and maintain an application.

**Confidentiality.** Unless the collaborators are obliged to keep results and any disclosed pre-existing technology of the other confidential, the value of such technology will be reduced. Disclosure otherwise than in confidence before making any patent application will prejudice the right to grant of a patent. Therefore, clear reciprocal obligations of confidence should be included.
Do your subcontractors own your IP?

Additionally, between the collaborator and its own personnel, it is crucial at the outset to ensure that all intellectual property rights belong to the employer and that any documents are clearly marked to show that they have arisen from the work.

IP can be tricky. It seems only fair to assume that a company that engages a subcontractor to, say, write some bespoke code for an online application, would own it outright but that is not the position under UK law.

This gets a bit technical now. Stay with us. In the absence of an express written assignment ownership of the copyright in the code would stay with your subcontractor. Granted, the courts will likely imply a licence in your favour but that is not the same thing and not owning IP that you have paid for is one hassle you can do without particularly when it is quite easy to get right from the outset by having the right contract in place.

If this just seems like a small headache with little impact on the business you can soon find yourself with a serious migraine. Perhaps your best customer wants reassurance that you own the IP that you are promising to assign or licence to them or, when it comes to selling your business, your buyer’s due diligence throws up some awkward questions about ownership.

Exit

Few collaborations last forever. Therefore, it is important to analyse what should happen, on termination, to intellectual property either held by or licensed to either party. For example: How are such rights to be split between the respective parties? Do any of the parties, after termination, require a licence of any intellectual property from the other. There may well be different "exit routes", each with different consequences in terms of the vesting of any intellectual property rights.
Further resources:

Having read this article you may wish to undertake an Intellectual Property Audit to ensure all the IP owned and used by your business is properly protected. Click here to find out more about what this involves and how we can assist with this.

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