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Protecting Intellectual Property in Joint Ventures

Presented by: Richard Assmus and Kristine Young

January 25, 2017

Mayer Brown's Joint Ventures & Strategic Alliances Practice

- Interdisciplinary capabilities
- Durable and effective joint venture and alliance structures
- Within a jurisdiction and across borders
- Multiple industries
- The spectrum of the JV/SA continuum:
  - **Planning and Strategy**
  - **Formation and Negotiation**
  - **Business Building**
  - **Governance and Disputes**
  - **Exits and Monetizations**

Upcoming Webinar Topics

- **February** –Joint Ventures and Strategic Alliances in the Middle East
- **March** – Antitrust Issues related to Joint Ventures and Strategic Alliances
- **April** – Joint Ventures and Strategic Alliances in Brazil and China
- **May** – Service, Supply and Operating Agreements in Joint Ventures and Strategic Alliances

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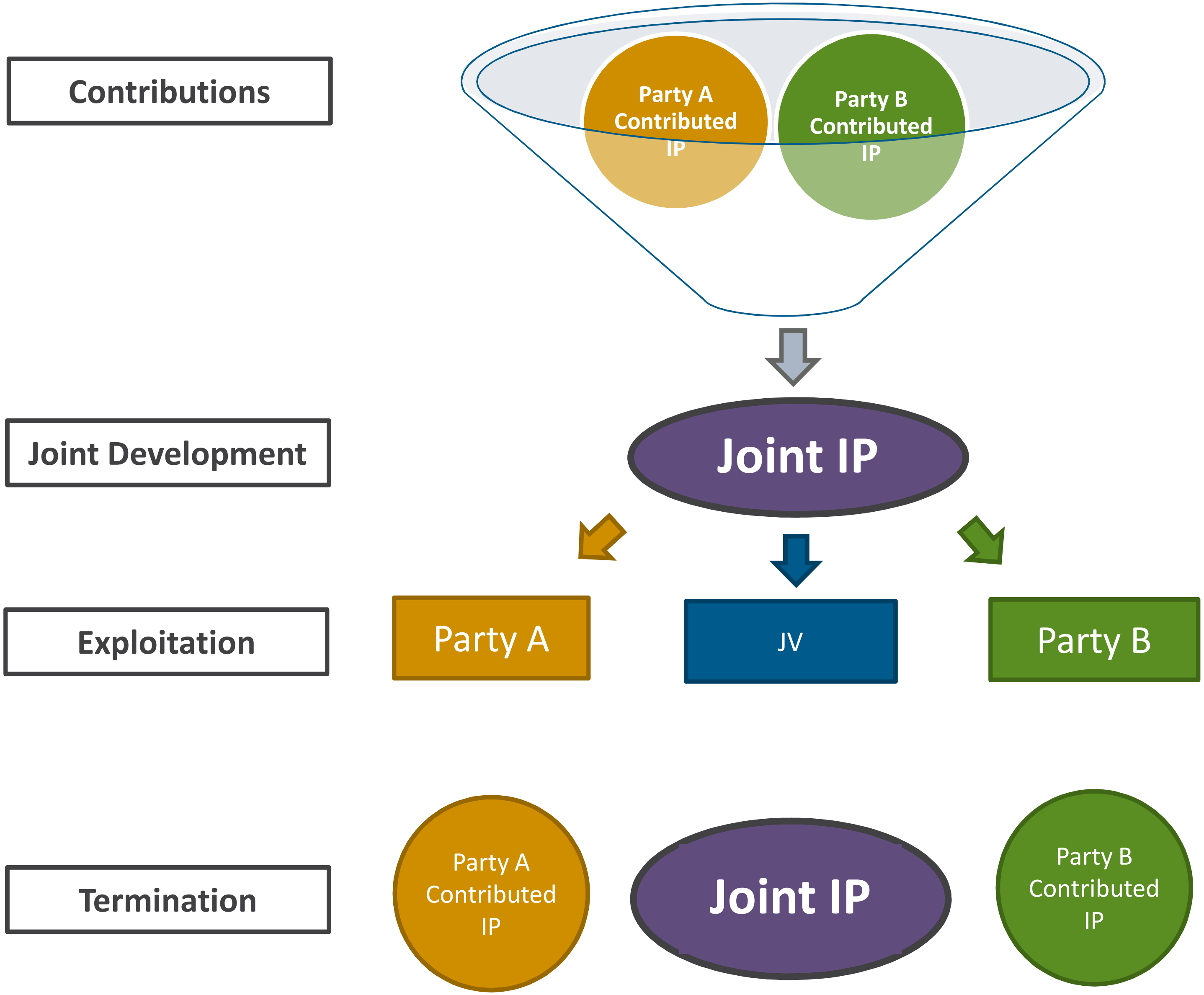
Agenda

I. Formation and Contribution Issues

II. Handling of Jointly Developed IP

III. Lessons Learned from Cases
– What can go wrong?

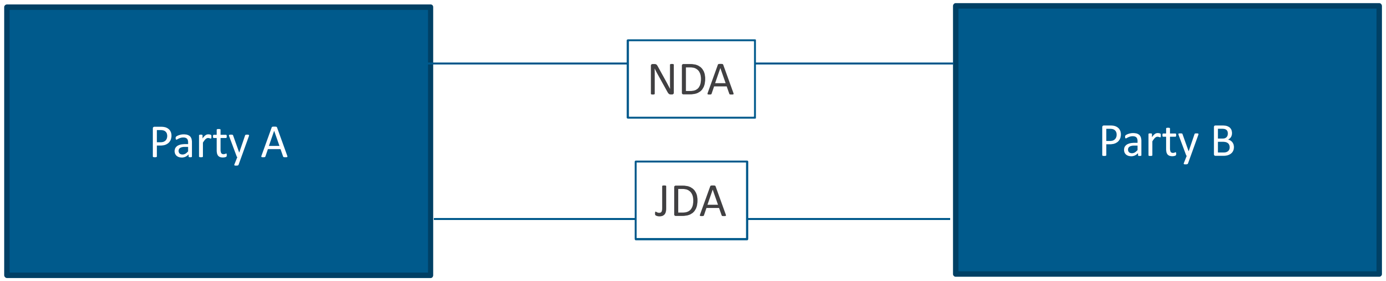
Life Cycle of Joint Venture IP



I. Formation and Contribution Issues

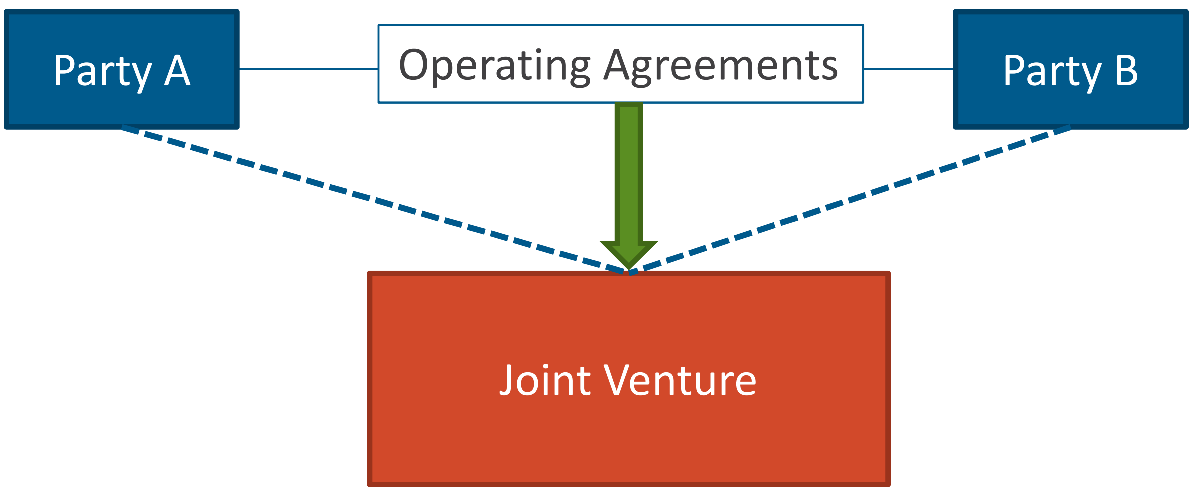
Types of Joint Ventures

- **Strategic alliance:** Parties enter one or more contracts that govern the relationship between parties and development of joint IP
  - May be appropriate when collaboration has narrow scope and finite duration
  - Less onerous to document, easier to unwind
  - Does not necessarily simplify IP issues



Types of Joint Ventures (cont.)

- **Formation of separate legal entity:** Parties create an LLC (for example) that governs development of joint IP
  - May be more appropriate when parties are in a long-term, complex business relationship
  - More onerous to document (e.g., governance)
  - Carries administrative burden of managing a separate legal entity



“Priming the Pump”: Contributing IP to the Joint Venture

- At the outset, it is common for parties to disclose (and later contribute or license) IP to the JV
- Disclosures/contributions may include:
  - Pre-existing IP owned by the contributing party (background IP)
  - Third-party IP (e.g., licensed IP rights)
  - Other resources/capabilities (e.g., R&D effort, facility access)
- It is important to understand and define what is being contributed, and equally important to understand and define what is <u>not</u> being contributed.

Questions to Ask in Defining Contributions

- What is the purpose of the joint venture?
- What product, process or service is to be developed?
  - Is the development an improvement to an existing product, process or service or an entirely new creation?
- Where will the product, process or service be developed and sold?
- Will the venture partners be engaged in the same or related businesses?

Pre-Contribution Diligence

- Verify ownership
- Confirm whether there are any encumbrances against the IP that could affect the rights conveyed to the JV
  - Security interests
  - Pre-existing licenses
  - Source code escrows
- Assess whether there are any weaknesses in the IP that could affect the JV's ability to exploit it
  - If appropriate, may include FTO and similar pre-launch clearance procedures

Backstopping Diligence with Representations

- Sole and exclusive owner
- No encumbrances
- Contributed IP does not infringe third party rights
- No maintenance lapses
- Valid and subsisting
- Developers have assigned IP to the company/owner
- No breach of licenses or other agreements related to the contributed IP
- Sufficiency of contributed IP for JV purposes
- No open source

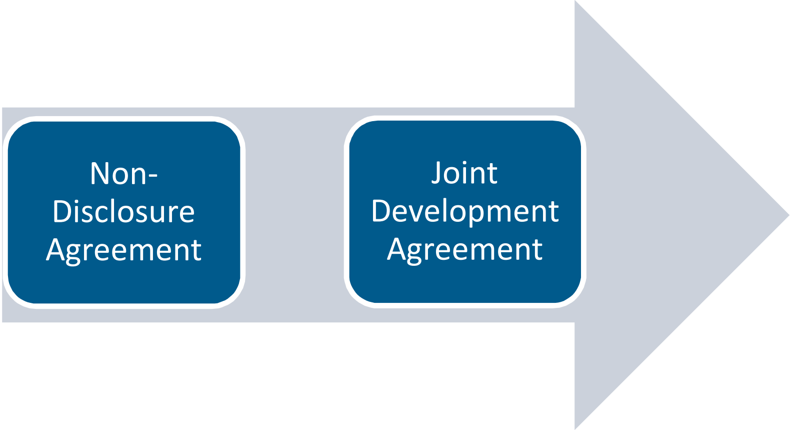
Considerations When Contributing IP to a Joint Venture

Practice Tip: When contributing IP to a JV, include a "no guarantee of success" clause to protect the contributing part(ies) from claims that the contributed IP did not fulfill the intended purpose.

"There is no guarantee that the joint development will result in a successful development or that the Contributed IP will have the effect or results that the JV intends."

Documenting the Contributions

- The governing documents of the joint venture or strategic alliance can take various forms and titles, but it is typical for the parties to execute something akin to joint development agreement (JDA), which should address at a minimum:
  - The development, use, ownership, protection and enforcement of IP that is created as part of the JV
  - How the parties will bear financial risks and liabilities as to IP
  - Rights or obligations upon termination as to IP



Avoiding “Mission Creep”

Practice Tip: The JDA should specifically and narrowly define the purpose and scope of the joint development.

“The Parties establish this Joint Venture for the sole and exclusive purpose of [developing and selling the ‘Joint IP Product’].”

Special Considerations Based on Type of IP

- If trade secrets or know-how are contributed, include strong confidentiality provisions.
  - How will these assets be treated upon dissolution of the JV?
  - Will the other venture partner need access to this information?
- If contributed IP is subject to a granted patent, registered copyright, or registered trademark, what if legal protection is lost or challenged?
  - Will there be any field of use or other restrictions?
  - Trademarks typically require detailed provisions about use and quality control.

Avoiding Unintended Contributions

- What IP is **not** being contributed? Beware of "implied" licenses!
  - The JV agreement should clearly define any IP that is not contributed and make clear whether any license to such IP is granted to the JV.

Practice Tip: Include a requirement in the JV Agreement that neither party, nor the joint venture, nor any third parties, may use another party's underlying contributed IP independent of the JV.

Nature of Contribution – Assignment or License?

- If the JV will require start-up IP, the owner(s) of that IP must consider how the IP will be contributed.
  - Assignment
  - License
- Whether an assignment or license is appropriate will depend on the circumstances of the JV and the owner's plans to use the IP in connection with the JV or for other purposes.

Licensing Considerations

- Exclusive or non-exclusive
  - Exclusive even as to the owner?
- Field of use restrictions
  - Geographic
  - Product/service
- Ownership of improvements
  - Access to future IP developed by contributor
  - Handling of improvements made by the JV
- Royalties

Licensing Considerations (cont.)

- Enforcement
  - Which party(s) can enforce?
  - **Note:** Each category of IP has nuanced rules for licensing, which must be considered when drafting the license agreement based on the desired enforcement obligations/arrangement
- Termination provisions
  - The basis upon which a license to contributed IP is terminable is commonly a hotly negotiated issue, particularly when the IP is core to the JV's business
  - Unfair leverage may be obtained if the IP owner can pull the plug on the license
  - Generous cure periods and strict limitations on termination are common

Assignment Considerations

- Will the assignor will need a license back, including to improvements?
- How will the IP be treated upon dissolution or sale of the JV?
  - May depend on exit strategy/plans
  - Tension between protecting commercial position of contributor and maximizing value of venture
- Valuation of assigned IP

II. Handling of Jointly Developed IP

Ownership of Jointly Developed IP ("Joint IP")

- The JV agreement should define how jointly developed IP will be owned. Options for ownership include:
  - The JV owns the Joint IP during the life of the JV.
    - This requires that there be a plan in place Joint IP in the event of termination/dissolution of the JV.
  - Parties to the JV jointly own and have an undivided interest in Joint IP.
    - Each party has unrestricted use, including the right to sublicense.
    - The JV may also be a joint owner or a licensee.
  - Each party has joint ownership but parties are subject to restrictive covenants (e.g., to prevent disclosure to competitors).
  - The Joint IP is assigned solely to one party and licensed to the JV while the JV is in operation.

Pitfalls of Joint Ownership

Practice Tip: Avoid joint ownership of IP where possible, except where joint ownership can be clearly allocated among different fields of use or geographies.

- Joint ownership can create issues with enforcement and commercial exploitation of Joint IP.
- It often makes termination issues more difficult to handle.

Considerations for Joint IP: Protection

- What right does each party have to seek legal protection of Joint IP?
  - Who pays for prosecution and maintenance of the IP?
  - How are decisions on protection made?
    - Many clients set up IP committees at venture
  - What if one owner refuses to participate in prosecution?

Commercial Exploitation of Joint IP

- Can each party commercially exploit the Joint IP?
  - Can parties license rights to third parties, with or without the consent of the other party?
  - Is there an obligation to share revenues with other party and/or JV?
  - Will the venture parties be able to compete with the venture?
    - Common area of dispute
  - Can either party, or the JV, further develop the IP?

Continued Ownership & Use of Contributed and Joint IP after Termination

- Rights after termination of the JV
  - Can either party continue to access the Contributed IP for purposes of using the Joint IP or developing Derivative IP?
  - If the JV is deemed unsuccessful, can one party continue efforts to develop IP that was the objective of the JV? If so, must developments or improvements be shared?
  - If the IP is held by the JV, will the JV license the IP to the parties?

Considerations Related to Ownership and Use of Joint IP

- Rights to Derivative IP
  - Derivative IP is typically beyond the scope of the joint development agreement
    - Created during the course of the JV, but is ancillary or even completely separate from the purpose of the JV.
  - It is difficult to define and address by agreement
    - It is often difficult to accurately separate what is a joint development effort central to the purpose of the JV and what is a modification or derivative of a party's Contributed IP.

Considerations Related to Ownership and Use of Joint IP

- It is typical for parties who contributed IP to the JV to want to retain rights to modifications or derivatives of the Contributed IP.
- Several questions often emerge:
  - Who owns the Derivative IP?
  - Who actually created the Derivative IP?
  - Was any Contributed IP embedded into Derivative IP?
  - Who will seek protection of the Derivative IP?
  - Is there any obligation to license Derivative IP to other parties and/or to the JV?

III. Lessons Learned from Recent Cases

Polyzen, Inc. v. Radiadyne, LLC, No. 5:11-CV-662-D (E.D.N.C. Sep. 23, 2016)

POLYZEN

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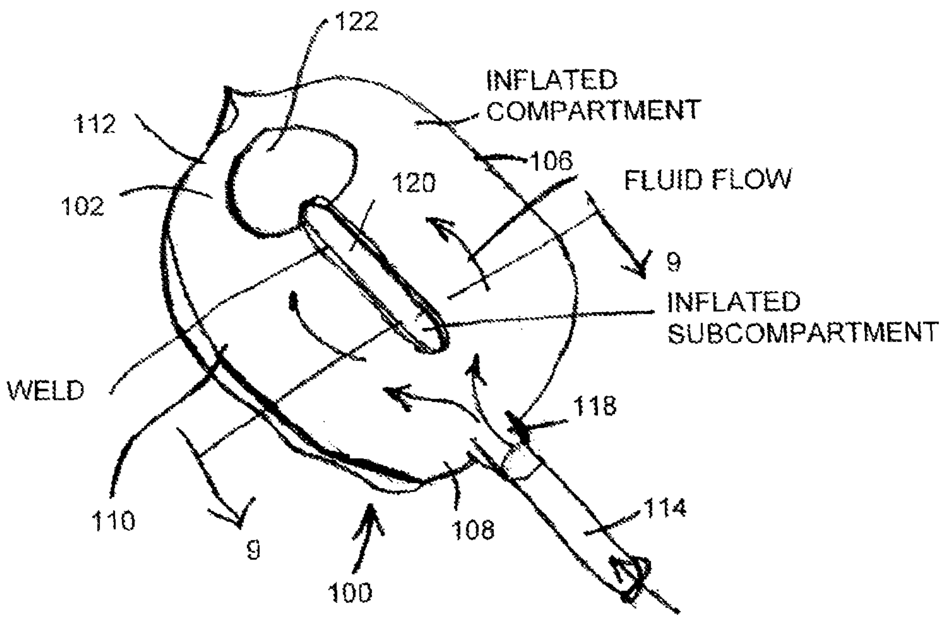
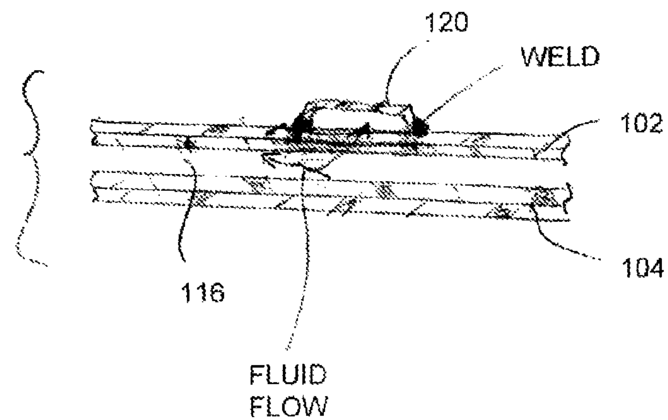




Polyzen, Inc. v. Radiadyne, LLC

- **Relevant Facts:**
  - The president of Radiadyne contacted Polyzen because he wanted to share his idea for a non-latex balloon catheter and pursue further development of the product.
  - The parties entered a Confidentiality Agreement and began collaborating to develop the device. The Confidentiality Agreement provided, "[b]oth parties agree that no right or license under any patent or trade secret . . . is granted to the other party by this agreement."
  - The parties negotiated a Development and Commercialization Agreement to "*document various verbal agreements and understandings*" and "*define future expectations of each other*." The Development Agreement confirmed, "*RADIADYNE TECHNOLOGY and RADIADYNE PRODUCT will remain properties of Radiadyne*," where RADIADYNE PRODUCT is the jointly developed product.

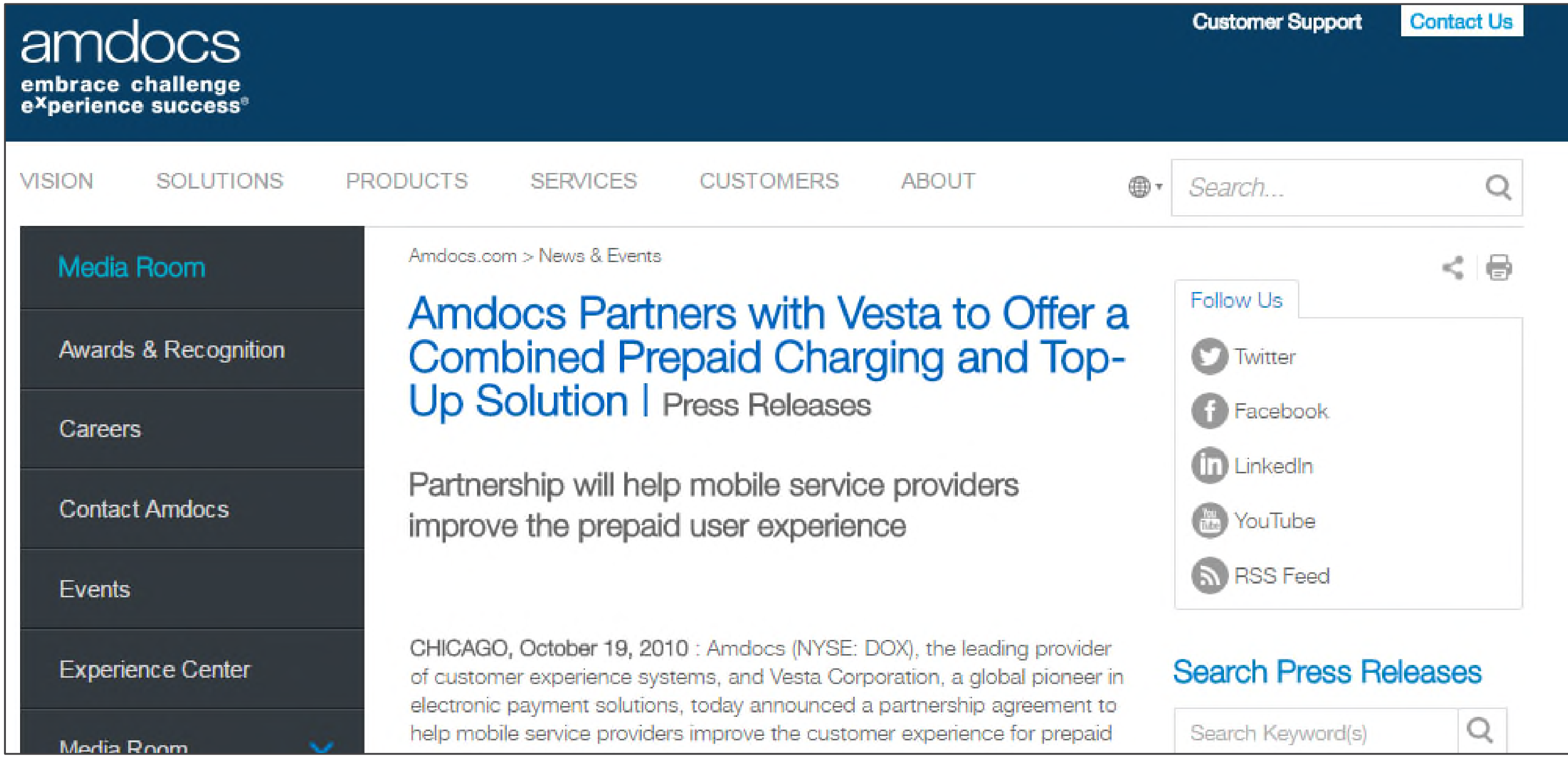
Polyzen, Inc. v. Radiadyne, LLC

- **Relevant Facts (cont'd)**
  - Radiadyne shared jointly-developed specifications and drawings with prospective manufacturers.
  - Then, Polyzen filed a patent application on the balloon without informing Radiadyne, naming only Polyzen employees as inventors.
  - Radiadyne terminated the Development Agreement and the patent issued shortly thereafter.
  - Polyzen sued Radiadyne for patent infringement of the balloon.
  - Radiadyne argued that Polyzen lacked standing to sue because Radiadyne is a joint owner of the issued patent and Radiadyne did not consent to the infringement suit against itself.

Polyzen, Inc. v. Radiadyne, LLC

- **Holding:**
  - Upon reviewing the agreement, the court denied Polyzen's motion for summary judgment and dismissed Polyzen's patent infringement claim, finding that Radiadyne is a joint owner of the patent.
- **Lessons Learned:**
  - The language of the JDA is critically important to define ownership.
- **Practice Tips:**
  - In the JDA, be explicit and clear about IP ownership of contributed IP and joint IP.
    - Clarify which party can pursue IP protection of joint IP if the JDA terminates.
    - Provide a term about what happens to IP ownership if the NDA and/or JDA is terminated.

Vesta Corp. v. Amdocs Management, Inc., No.3:14-cv-1142HZ (D. Or. Jan. 13, 2015)



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Amdocs Partners with Vesta to Offer a Combined Prepaid Charging and Top-Up Solution | Press Releases

Partnership will help mobile service providers improve the prepaid user experience

CHICAGO, October 19, 2010 : Amdocs (NYSE: DOX), the leading provider of customer experience systems, and Vesta Corporation, a global pioneer in electronic payment solutions, today announced a partnership agreement to help mobile service providers improve the customer experience for prepaid

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Vesta Corp. v. Amdocs Management, Inc.

- **Relevant Facts:**
  - Vesta and Amdocs provide services to national and international mobile phone networks and began working together in a strategic partnership to integrate their services and platforms to better appeal to their shared customer base.
  - During the course of the joint collaboration, the parties shared confidential and proprietary information with each other, with Vesta sharing confidential information about its payment solutions/methods, pricing and more.
  - The parties entered into confidentiality agreements given the proprietary nature of the information being shared.
  - As part of the collaboration, the parties collaborated on a joint proposal providing for Vesta to supply a payment solution to MetroPCS that would be integrated into Amdocs' billing platform, which MetroPCS was already using. Ultimately the joint pitch was not successful.

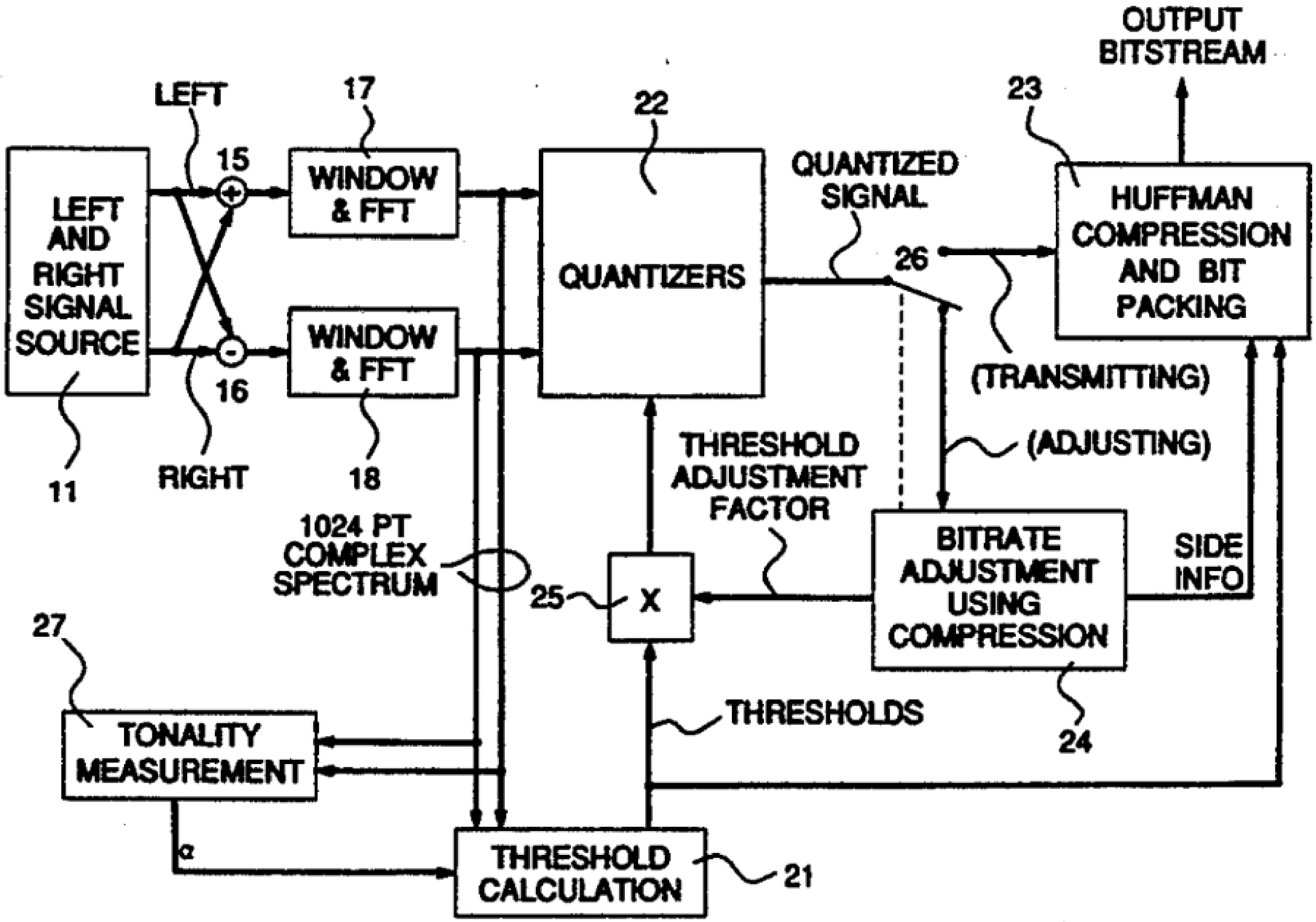
Vesta Corp. v. Amdocs Management, Inc.

- **Relevant Facts (cont'd)**
  - Shortly after the failed pitch, Vesta learned that Amdocs sold MetroPCS an integrated payment solution and billing platform, and excluded Vesta from the sale. Vesta also learned that Amdocs was actively marketing the solution to other potential customers.
  - Vesta alleged that there is no way that Amdocs could have built a payment solution for MetroPCS in such a short time frame without using some significant portion of the confidential information provided to Amdocs by Vesta in connection with the parties' collaboration project, and Vesta sued Amdocs for breach of contract, theft of trade secrets, and fraud.
  - Amdocs argued that the suit should be dismissed because Vesta failed to identify any trade secrets it had shared during the project.

Vesta Corp. v. Amdocs Management, Inc.

- **Holding:**
  - The court denied the motion to dismiss, finding that the complaint defined the trade secrets at issue with sufficient particularity.
- **Lessons Learned:**
  - Failed joint ventures are ripe for litigation, even in instances where the joint venture never really got off the ground. Litigation may present challenges for parties when the joint venture involved sharing confidential and trade secret information.
- **Practice Tips:**
  - Identify trade secrets with particularity at the beginning of a JV to help reduce the chances that a JV partner will later claim that they helped develop the trade secret or that the trade secret is not valuable or secret.
    - This will also help ensure that a JV partner cannot later claim independent discovery, denying trade secret theft.
  - Be sure to consistently mark shared documents and materials as confidential information before sharing/disclosing to JV partners.

Lucent Techs., Inc. v. Gateway, Inc., 543 F.3d 710 (Fed. Cir. Sep. 25, 2008)



U.S. Pat. No. 5,341,457

Lucent Techs., Inc. v. Gateway, Inc.

- **Relevant Facts:**
  - AT&T (Lucent Techs.) entered into a JDA with a German company, Fraunhofer, for the development of certain digital compression technologies.
  - The JDA provided that each party will retain their own "Existing Technology," and that "New Work" would be jointly owned by AT&T and Fraunhofer.
    - Each company had the nonexclusive right to make use of, and to grant nonexclusive licenses to others to use, the technology.
  - AT&T employees began collaborating with Fraunhofer employees. Fraunhofer continued to write and license software related to the technology to Microsoft to use in connection with Windows Media Player.

Lucent Techs., Inc. v. Gateway, Inc.

- **Relevant Facts (cont'd)**
  - Several years later, an AT&T employee filed a patent as the sole inventor. The current patent-owner (AT&T, now Lucent Technologies) brought suit against Gateway and Dell for patent infringement.
  - The court dismissed the suit finding the patent-owner (Lucent) lacked standing because the patent was jointly owned by Lucent and Fraunhofer. Lucent challenged the lack of standing, arguing that the patent is directed only to "Existing Technology" under the joint development agreement.
  - Lucent argued that while, the JDA may have attempted to assign joint ownership to some of the claims of the patent at issue, it was ineffective to do that because all of the claims of the patent did not include New Work.

Lucent Techs., Inc. v. Gateway, Inc.

- **Holding:**
  - The Federal Circuit found that Lucent lacked standing to sue because claims 2 and 4 of the relevant patent incorporate "New Work" under the JDA, thus the patent, in its entirety, is jointly owned by Lucent and Fraunhofer. The court held that Fraunhofer must be joined to the suit for it to proceed.

Lucent Techs., Inc. v. Gateway, Inc.

- **Lessons Learned:**
  - Be cautious when contracting for jointly owned IP. Courts look to default laws and JDA to determine what constitutes jointly owned IP and each party's rights related to that IP.
- **Practice Tips:**
  - If IP will be jointly owned, be sure to make clear the parties' obligations to participate in enforcement actions, including how costs will be shared.
  - Clearly document the intent of the parties with respect to ownership of jointly developed IP.

Akzo Nobel Coatings v. Dow Chem. Co., C.A. No. 8666-VCP (Del. Ch. June 5, 2015)

(19) **United States**

(12) **Patent Application Publication**

Lindenmuth et al.

(10) **Pub. No.: US 2015/0147502 A1**

(43) **Pub. Date: May 28, 2015**

(54) **AQUEOUS BASED BLEND COMPOSITION AND METHOD OF PRODUCING THE SAME**

(71) Applicants: **Dow Global Technologies LLC**, Midland, MI (US); **Rohm and Haas Company**, Philadelphia, PA (US)

(72) Inventors: **Denise Lindenmuth**, Ambler, PA (US); **Joceyln Gruver**, North Wales, PA (US); **Ann R. Hermes**, Ambler, PA (US); **Ray E. Drumright**, Midland, MI (US)

(73) Assignee: **Dow Global Technologies LLC**, Midland, TX (US)

(52) **U.S. Cl.**

CPC ***C09D 133/08*** (2013.01); ***C08J 3/05*** (2013.01); ***C09D 123/12*** (2013.01); *C08J 2323/12* (2013.01); *C08J 2423/12* (2013.01); *C08J 2333/08* (2013.01); *C08J 2433/08* (2013.01)

(57) **ABSTRACT**

The instant invention is an aqueous based blend composition and method of producing the same. The aqueous based blend

Akzo Nobel Coatings v. Dow Chem. Co.,

- **Relevant Facts:**
  - Akzo Nobel Coatings entered into a JDA with Dow Chemical for the development of new protective coatings for metal beverage and food packaging containers
  - In the court's words, the goal of the joint venture was "to combine Dow's expertise in polymeric materials and products with Akzo's expertise in protective coatings for metal beverage and food packaging containers."
  - The JDA provided:
    - The jointly developed product would be owned wholly by one of the two parties, depending on whether it was a "Target Coating" (to be owned by Akzo) or a "Material" or "Project Material" (to be owned by Dow).
    - "*Everything not falling into one of these categories is jointly owned by Dow and Akzo*."

Akzo Nobel Coatings v. Dow Chem. Co.,

- **Relevant Facts Cont'd:**
  - Dow terminated the joint relationship and agreement.
  - Seven months later, Dow informed Akzo that it planned to file patent applications on "coatings for food and beverage containers and cans," allegedly, according to Akzo, incorporating some of Akzo's confidential information.
  - Dow proceeded to file the applications over Akzo's objections, and Akzo brought suit for breach of contract, including breach of a confidentiality clause, and for a declaratory judgment on patent ownership.
  - Dow moved to dismiss the suit on the grounds that the patent applications do not claim anything besides a "Material" owned by Dow under the JDA.

Akzo Nobel Coatings v. Dow Chem. Co.,

- **Holding:**
  - The court denied Dow's motion to dismiss with regard to the breach of contract and patent application ownership claims after reviewing the agreement and the definitions of IP and IP ownership in the agreement.
- **Lessons Learned:**
  - It is not uncommon for parties to disagree on ownership of jointly developed IP. Courts will closely parse definitions of technology and IP in the JDA when determining ownership.
- **Practice Tips:**
  - Carefully draft IP terms to protect everything the Disclosing Party is bringing to the JDA and define restrictions on use of confidential information.
    - The Disclosing Party should seek a provision that prevents the Receiving Party from disclosing or claiming Contributed IP when applying for or registering IP.
  - Be cautious when drafting terms related to termination of the JV and ownership of the joint IP, particularly when one party's contributed IP is confidential information that is embedded in the joint IP.

Final Takeaways

- Become familiar with the other party to the agreement to properly structure the joint development.
  - Understand the purpose of the joint development and what each party expects from the relationship.
- Understand what each party will or will not contribute to the joint development and how those contributions are protected.
  - Due diligence related to contributed IP is important.
  - Use representations to protect the JV from future disputes and issues.
  - Whether contributed IP should be licensed or assigned to the JV and/or parties is fact-dependent and includes analysis of factors like the contributor’s need/desire to use the IP going forward.

Final Takeaways (cont'd.)

- Define ownership, control, and maintenance of joint IP
  - Be very clear about what royalties or accounting will be due to the parties.
- Provide for termination and future of the joint development
  - Define what each party can do with any contributed or joint IP after the JV terminates.

*****A joint venture checklist is being developed. We will let everyone know when the checklist is available*****

Questions?