



The perils of joint ownership of IP

A cautionary tale from south of the border.

One common strategy for Canadian businesses looking to develop new products, services, or technologies is to partner with another business that provides expertise not available in-house.

In the knowledge economy, many of these partnerships generate new intellectual property, which may be commercialized around the world. This raises the issue of how to apportion the rights to the IP between the parties. Despite being advised of the risks, many companies choose to jointly own the rights of this new IP. There are many reasons for this. Joint ownership seems simple and fair, while the risks seem hypothetical and remote. Other alternatives for apportioning the rights to the IP involve having difficult and potentially contentious conversations that risk jeopardizing the momentum and enthusiasm that almost always exists at the start of the relationship. However, there is good reason for companies to listen to the concerns of their IP lawyers and consider the risks of joint ownership. A recent case out of the United States highlights the risks of IP co-ownership in the patent context.

In *STC.UNM v. Intel Corp.*, No. 13-1241, a U.S. District Court had dismissed a patent infringement suit filed by STC (a wholly-owned licensing arm of the University of New Mexico) against Intel because the co-owner of the patent (Sandia Corp.) had not agreed to join the suit as a co-plaintiff, and could not be involuntarily joined as a co-plaintiff. The District Court also confirmed that U.S. law requires that all owners of a patent join in an infringement suit. The U.S. Court of Appeals for the Federal Circuit affirmed the District Court ruling. The CAFC found that, if a co-owner of a patent “takes a neutral position” (as Sandia did in this case) or otherwise declines to join in a patent infringement suit brought by the other co-owner, the non-participating co-owner cannot be involuntarily added as a plaintiff.

The effect of this decision is that one co-owner of a U.S. patent can block the other co-owner(s) (absent an agreement to the contrary) from enforcing the patent. It is very unlikely that STC contemplated this result when it became a co-owner of the patent with Sandia.

The decision does provide some advice on how this outcome could have been avoided. The CAFC confirmed that U.S. patent co-owners can, by agreement, waive their right to refuse to join in an infringement suit.

The CAFC proceeding was initially heard by a three-judge panel and was a 2-1 decision. STC then requested the case be reheard by the full panel of CAFC judges. This request was denied in a close 6-4 decision. Given the sharp divisions among the CAFC judges, there is a chance that this case may end up before the U.S. Supreme Court. Regardless of the ultimate outcome of this case, it teaches valuable lessons.

The default rights of the parties in joint IP ownership arrangements can be different in various jurisdictions and for different types of IP rights (e.g. patents, copyright). Consequently, there can be many potential pitfalls — of which this case is but one example — particularly when the IP rights are commercialized in a number of different markets. The best way to reduce these risks is not to take the easy way out, but to have the difficult discussions up front. Often, the best alternative is to strategically divide up the IP ownership rights between the parties. Any demands by one party to access the IP rights owned by the other party may be handled by appropriate licences. Even if the parties determine that joint ownership is the best arrangement, they should put in place an agreement that clearly sets out their respective rights and obligations. The agreement should address issues such as: (i) if one co-owner is able to obtain revenue from the jointly owned IP right without the help of the other co-owner, is the other co-owner nevertheless entitled to some portion of the revenue; and (ii) the level of co-operation each co-owner will provide in enforcing the IP right. If STC followed this advice, perhaps the outcome could have been different. ■

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