From PLI's Course Handbook
Advanced Licensing Agreements 2005
#5923

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INTELLECTUAL PROPERTY ALLOCATION STRATEGIES IN JOINT VENTURES

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Table of Contents

I. INTRODUCTION 5

II. JV STRUCTURAL MODELS 5

A. Contractual Model 6
B. Entity Model 7
C. Two-Stage Model 9

III. IP ALLOCATION GENERALLY 9

A. Default Allocation Paradigm: Joint Ownership 10
1. Conflicting Rights Under Default Laws 10
a) Right to Exploit 10
b) Right to Enforce 11
c) International Considerations 12
2. Enforceability of Contractual Provisions 13
a) Against Third Parties 13
b) Against Joint Owners Themselves 13
3. Recommendations 14
B. Preferred IP Allocation Strategies 15
1. IP Ownership: Background, Non-Derivative Foreground and Derivative Foreground IP 15
2. Optimizing Rights to Use of the Non-IP Owning Joint Venturers 16
a) Licenses: Exclusivity, Field of Use and Royalties 16
b) Non-Competition Covenants 16

IV. EXEMPLARY APPLICATION OF IP ALLOCATION STRATEGIES TO THE JV STRUCTURAL MODELS 17

A. Contractual Model 18
B. Entity Model 20
C. Two-Stage Model 22
1. Pre-JV 22
2. Joint Development (Contractual) Phase 23
3. NewCo (Entity) Phase 24

V. EXIT STRATEGIES 25

A. Merger or Acquisition of the JV Entity 26
B. Dissolution of the JV Entity 26
1. IP Owned by the JV Entity 26
2. Inbound Licenses from Third Parties 27
3. Inbound Licenses from Joint Venturers 27
4. Outbound Licenses from JV entity 28

VI. CONCLUSION 28

I. INTRODUCTION

The term "joint venture" is commonly used to mean "an association of economically independent business entities . . . for a common commercial purpose of defined scope and duration, by contract or in the form of a new business entity, and by means of which the [v]enturers pool resources and share risks, rewards and control."[1] Typically, each joint venturer contributes a unique attribute (e.g., technology, capital, management expertise, or product distribution and marketing) toward a shared common objective and acceptance of risk.[2] Other terms that are commonly used to describe joint ventures include "strategic alliance," and "partnership."[3]

This paper examines issues of intellectual property strategy for those joint ventures (or "JVs") in which the development or acquisition of intellectual property rights ("IP") is contemplated. This paper presents an analysis of the relevant considerations for forming, administering and unwinding the IP-related aspects of the JV. More specifically, Section II describes possible models to structure the JV, Sections III and IV describe possible models for allocating IP rights in subject matter developed by the JV, and Section V describes strategies for disposition of the IP assets following unwinding of the joint venture.

II. JV STRUCTURAL MODELS

In negotiating a joint venture, the potential joint venturers often focus their attention on the future profitability of the joint venture, leaving to their counsel to work out the form and structure that the JV should actually take. Thus, counsel must establish a dialogue with the client to ask questions such as: why the client wishes to form a joint venture; whether the client's goals can be

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1. Ron Ben-Yehuda, Joint Ventures, *in* STRUCTURING, NEGOTIATING & IMPLEMENTING STRATEGIC ALLIANCES, 247, 249 (Practising Law Institute, 2001).
2. Thomas H. Kennedy, Joint Ventures, *in* STRUCTURING, NEGOTIATING & IMPLEMENTING STRATEGIC ALLIANCES, 215, 217-18 (Practising Law Institute, 2001).
3. "Partnership" in the business sense and not necessarily in the strict legal sense.

achieved in other ways; what makes the other party an attractive joint venturer; what rewards the client envisions; whether the parties' goals are compatible; and whether the parties, as business entities, are themselves compatible (i.e. in terms of business culture, background, experience, organizational values).[4] These preliminary determinations will assist counsel in advising the client on a suitable JV structural model, which in turn will inform the possible allocation models for the subject matter arising out of the JV.

A. Contractual Model

As its name suggests, under this model, the joint venturers establish and form the joint venture through a contractual agreement, as opposed to forming a separate legal entity such as a partnership, limited liability company, or corporation. The parties tend to prefer a contractual relationship when, instead of being continuous, the collaboration between the joint venturers will be of "narrow scope and finite duration."[5] Generally, a purely contractual relationship is appropriate when the joint venturers' activities are sufficiently distinct (in either a technology or business sense) that they can simultaneously coexist without harming each other. For example, in the technology sector, contractual JVs are commonly formed for purposes of early stage (e.g., pre-commercialization) research & development, or for late-stage (e.g., post-productization) co-marketing.[6]

From a general legal perspective, the specific and narrow objective of the contractual JV is likely to result in a more limited construction of any fiduciary duties[7] among the joint venturers as compared to those found in a partnership or

4. See Ben-Yehuda, N. 1 *supra*, at 252.
5. See Kennedy, N. 2 *supra*, at 219-20.
6. See Ben-Yehuda, N. 1 *supra*, at 250.
7. See Universal Studios, Inc. v. Viacom, Inc., 705 A.2d 579, 593-95 (Del. Ch. 1997) (holding that joint venturers owe fiduciary duties to one another and that successor party to original joint venturer assumed and subsequently breached the fiduciary duties owed to plaintiff second joint venturer by retaining its preexisting cable networks in contravention of the non-compete provision in the joint venture agreement).

corporation.[8] In addition, a purely contractual JV offers the advantage of minimizing complex tax issues and avoiding the administrative burden of managing a separate entity.[9]

From an IP perspective, the contractual model means that the joint venturers will each conduct their own activities in the JV's space. Depending on the contractual agreement, these activities may be restricted to mutually exclusive fields, they may be in partially overlapping fields, or they may be wholly unrestricted. Typically, there will be preexisting IP relevant to the joint venturers' activities, and the agreement must provide for such IP to be licensed from its owner to the other joint venturers in a defined field of use. Similarly, the joint venturers usually will create new IP relevant to the JV's activities. The contractual agreement must vest ownership of such newly created IP in one or more of the joint venturers, with appropriate licenses to the other joint venturers in defined fields of use. Such allocation and licensing will be addressed in greater detail in Sections III and IV below.

B. Entity Model

Under this model, the joint venturers create an independent corporate entity to conduct the JV's business pursuant to a joint venture agreement. Typical forms of the new JV entity include partnerships, limited liability companies, or corporations. Multiple joint venturers may contribute IP to the nascent JV entity or, alternatively, one joint venturer may be the sole contributor of IP while the other contributes operating capital or managerial know-how. The joint venturers manage, participate in, and share the risks and returns of the JV entity by way of their respective equity ownership and/or pursuant to its specified corporate governance structure.

Joint venturers tend to prefer a separate JV entity where their relationship is a multi-faceted, long-term continuing business relationship. For example, in the technology sector, entity-based JVs are commonly formed for development of product lines wholly new to the joint venturers (although often

8. See Kennedy, N. 2 *supra*, at 220.
9. *Id*.

based on combining or integrating preexisting technologies), or for commercializing new markets (e.g., foreign ventures).

From a general legal perspective, the new JV entity can take the form of either a corporation, partnership or limited liability company. The corporate form offers the advantage of limiting liability of shareholders for the obligations of the enterprise, but carries the disadvantage of double taxation of corporate profits at the corporate level and shareholder level.[10] In contrast, under a partnership or limited liability company, profits are taxed only once at the partner or LLC member level, but general partners may have unlimited liability for obligations of the partnership.[11]

From an IP perspective, because the entity itself generally will conduct the JV's activities going forward, the entity provides a convenient place for any newly created IP to be held. Of course, the joint venturers' preexisting IP may have to be licensed to the entity, as needed. The joint venturers also will need to agree, in the JV agreement, whether and to what extent the entity is entitled to grant licenses to other parties (perhaps including the joint venturers themselves) in defined fields of use. Specifically, the joint venturers must determine whether the new JV entity is the exclusive vehicle for them to participate in the JV space.

Such exclusivity—plus appropriate roadblocks against apportioning the JV entity's IP back to the joint venturers upon dissolution of the JV entity—can disincentivize a devious joint venturer from using the JV entity to develop technology, that it could not develop on its own, then dissolving the JV to have the individual benefit of such IP.

Conversely, if the joint venturers themselves are authorized to conduct parallel (or non-JV) activities using the JV-created IP, the JV entity will need to grant appropriate licenses to the joint venturers in defined fields of use. In some extreme cases, the joint venturers may even structure the JV entity to conduct the JV business, but vest ownership of all IP in the joint ventur-

10. *Id*.
11. *Id*. at 221.

ers themselves. This would, of course, require appropriate licenses from the joint venturers to the JV entity.

C. Two-Stage Model

Yet another possibility is a two-stage model comprising a hybrid of both the contractual and entity structural models. The first stage consists of the execution of the JV agreement followed in a second stage by the formation of the independent JV entity.

This model is significantly more complex, and thus less frequently used, than the purely contractual or entity-based models. It is, however, useful where the joint venturers wish to begin a limited (contractual) collaboration (e.g., to determine technical and commercial viability of a proposed new product or process), followed by the formation of NewCo if such viability is demonstrated. For example, formation of NewCo could be conditioned on achieving certain technology development, productization, or financial milestones. If, on the other hand, the parties elect not to form NewCo then the contractual JV terminates.

III. IP ALLOCATION GENERALLY

In order to operate the joint venture—whether under the contractual, entity-based or two-stage models—the joint venturers and/or the JV entity will need to either own, or be licensed under, IP rights related to their business to operate. The choice of ownership versus licensing depends on a variety of factors. One factor is whether the IP arose independently of the JV (e.g., pre-existing or created by one of the joint venturers outside of the JV) or arose from operation of the JV. The former is often referred to as "Background IP," whereas the latter is often referred to as "Foreground IP."

Another factor is whether the JV is contractual, entity-based or established pursuant to the two-stage model. If the JV is entity-based or follows from the two-stage model, the relevant IP either can be owned by the JV, owned by one or both of the joint venturers and licensed to the JV, or some combination of the foregoing. For example, background IP might be owned by its creator (one

of the joint venturers) and licensed to the JV entity, or even assigned to the JV entity. Similarly, foreground IP (which in this instance would have been created by the JV entity) could be owned by the JV entity, or allocated to the joint venturers individually, who would then grant appropriate licenses to the JV entity. If the JV is contractually based, both the foreground and background IP must be owned by one (or both) of the joint venturers and licensed to the other. Nevertheless, many other variations are also possible.

A. Default Allocation Paradigm: Joint Ownership

In situations where IP is to be owned by the joint venturers themselves (under either the contractual, entity or two-stage models), the most common form of IP allocation is some form of "joint ownership." For example, foreground IP is often allocated as follows: IP developed solely by one joint venturer is solely owned by that joint venturer, while IP developed jointly by the joint venturers is owned jointly by those joint venturers. Indeed, even if the joint venturers fail to expressly allocate IP ownership under the contractual JV model, this type of IP allocation will arise under default law, because (at least in the United States) ownership initially vests with the creators of the subject matter in question.

1. Conflicting Rights Under Default Laws

The default rights of joint owners (to exploit and/or to enforce) are governed by respective national laws applicable to the type of IP asset in question.

a) *Right to Exploit*

For example, consider U.S. patent rights. Absent an agreement to the contrary, the default rule is that each joint owner can exploit the patent without the permission of the other and without any duty to share royalties.[12] Further, the joint owner's right to exploit includes the right to license third parties.[13] The freedom to license without accounting enables a savvy prospective patent

12. 35 U.S.C. § 262 (1996).

licensee to play the joint owners against one another other to maximize favorable deal terms for the licensee.

The situation becomes even more complicated when dealing with multiple IP types. For example, while U.S. patent law imposes no duty of accounting among exploiting joint owners,[14] U.S. copyright law does impose such a duty.[15]

b) Right to Enforce

The counterpart of exploitation is enforcement and, here as well, joint ownership presents pitfalls for the unwary. Again taking U.S. patent law as an example, normally, each joint owner must join in a suit to enforce the patent against a third party. This requirement protects a defendant from defending against multiple suits on the same patent and an absent joint owner from a finding of invalidity or unenforceability negatively affecting his rights. Consequently, any joint owner can hinder an offensive patent infringement action by refusing to join as a plaintiff.

Thus, joint owners of a U.S. patent find themselves in a situation where each joint owner can freely license without obligation to the other, but where each joint owner can prevent the other from suing by refusing to join the suit. In such a case, the rewards of licensing go to the joint owner who either grants a license first, or under-

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13. In *Ethicon, Inc. v. United States Surgical Corp.*, although both inventors, Yoon and Choi, contributed to some or all of the claims in the patent at issue, only Yoon was named as an inventor. Ethicon, the assignee of Yoon, sued U.S. Surgical for infringement under the patent. U.S. Surgical identified Choi as unnamed joint inventor and negotiated a license from him. Ethicon subsequently challenged the validity of U.S. Surgical's license; however, the Court of Appeals for the Federal Circuit upheld its validity because Choi, as a joint inventor, was a joint owner of the patent and could freely license his rights to a third party. 135 F.3d 1456, 1466 (Fed. Cir. 1998). This case highlights the risk that a contributor to any claim of a patent is a joint owner of the entire patent, and lawfully can license that patent to third parties.
14. 35 U.S.C. § 262.
15. Shapiro, Bernstein & Co. v. Jerry Vogel Music Co., 221 F.2d 569, 571 (2d Cir. 1955).

cuts another joint owner's offer with a more favorable deal. It is no wonder that courts have characterized patent joint owners as being "at the mercy of each other."[16]

A non-litigant joint owner can grant the defendant a license—even after initiation of the action—which will cut off part or all of the relief the litigant joint owner may obtain by exercising its unilateral right to sue.[17] Specifically, a nonexclusive license (even post-suit) will prevent the litigant joint owner from obtaining injunctive relief, and will also protect the defendant from liability for post-grant (but not pre-grant) damages.[18] But if the non-litigant joint owner grants the defendant an exclusive license (even post-suit), the non-litigant joint owner no longer can consent to join the suit as a joint owner of the patent, and the suit must be dismissed.[19]

c) International Considerations

Further complexity as to joint owners' rights ensues because different countries have different default laws. For example, consider the copyright joint ownership laws of three major industrialized countries: the United States, the United Kingdom, and Japan. Under U.S. law, joint owners of a copyright can freely exploit for themselves. Under U.K. law, the joint owners cannot exploit for themselves without consent of the other joint owners.[20] Under Japanese law, the joint owners cannot exploit without consent, but such consent cannot be unreasonably withheld.[21]

Indeed, parties in different countries—looking at joint ownership through the prism of their individual national

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16. See, e.g., Willingham v. Star Cutter Co., 555 F.2d 1340, 1344 (6th Cir. 1977).
17. Schering Corp. v. Zeneca, Inc., 104 F.3d 341 (Fed. Cir. 1997).
18. *Id.* at 345.
19. See *Ethicon, Inc. v. United States Surgical Corp.*, N. 11 *supra*, 135 F.3d 1456.
20. Information courtesy of U.K. attorney Alastair Breward, Esq., of Taylor Wessing.
21. Information courtesy of Japanese attorney Yoshikazu Tani, Esq., of Tani and Abe.

laws—may have entirely different expectations of what it means to be a joint owner. Based on the example above, American and British joint owners of a copyright might have had entirely different expectations regarding their individual rights to exploit. Some lawyers have been called to renegotiate joint ownership agreements when it became apparent, years after execution, that the joint owners had no meeting of the minds on their respective rights to exploit and enforce jointly developed subject matter.

2. *Enforceability of Contractual Provisions*

a) Against Third Parties

The previous two sections demonstrate the considerable variation in the default rules for the different types of intellectual property, as well as under the different national laws. An astute joint owner therefore will negotiate provisions in the JV agreement setting forth, in detail, the joint owners' respective rights and obligations. For example, such provisions might include covenants regarding unilateral exploitation, licensing of competitors, sharing of royalties, joining suits, and sharing of enforcement costs and proceeds. However, the effectiveness of these covenants remains uncertain as they may not always be enforceable.

Consider, for example, that the joint owners have agreed not to unilaterally exploit a jointly owned IP asset for the benefit of third parties. Such a covenant may be unenforceable against a third party who is held by a court to be a *bona fide* purchaser for value ("BFP") from one of the joint owners.

b) Against Joint Owners Themselves

Unlike the uncertainty surrounding contractual covenants with respect to third parties, such agreements should be enforceable against the joint owners themselves. For example, breach of a joint owner's covenant not to use for itself should be enforceable against that

joint owner. However, this may prove untrue in some situations.

For example, where a joint owner goes bankrupt, the bankruptcy court (or trustee) generally has the power either to assume or reject a contract held by the bankrupt party.[22] If the court rejects the JV agreement, the non-bankrupt joint owner may lose the benefit of the contractual provisions restricting the activity of the bankrupt joint owner. Conversely, the court might assume the JV agreement, but assign it to a third party (typically in connection with a sale of the joint ownership interest). In this scenario, the court would effectively divest the bankrupt joint owner of its joint ownership rights and vest those rights in a new joint owner (i.e. the third party)—perhaps even a competitor.

3. Recommendations

Joint ownership is fraught with pitfalls and should be avoided wherever possible. However, joint ownership may sometimes be unavoidable. For example, one joint venturer may oppose the formation of the joint venture on any other terms. In such a situation, the joint venturers must think through all issues and carefully plan for all contingencies. The joint owners cannot simply rely on default rules because, as discussed above, the rights to exploit and enforce vary with the type of intellectual property and applicable national laws. Such variation makes it impossible for the joint owners to effect an integrated and consistent plan for development, use and distribution of the subject matter covered by the jointly owned IP. Instead, the joint venturers should use the contractual or JV agreement to override the hodgepodge of inconsistent default laws by clearly allocating all the rights and responsibilities of the joint owners.

There are many possible alternatives to joint ownership, all of which involve some form of allocating IP ownership to individual parties (whether the joint venturers or the JV entity), who would then grant appropriate licenses to other

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22. 11 U.S.C. § 365(f).

parties as needed. In the next section, we explore some of these IP allocation possibilities.

B. Preferred IP Allocation Strategies

1. IP Ownership: Background, Non-Derivative Foreground and Derivative Foreground IP

In order to properly allocate ownership of IP under the preferred approach, the first step is to classify the IP based on the nature of the IP. Indeed, the election of a JV structural model and an associated IP allocation strategy are interdependent and, in turn, the IP allocation strategy is contingent on whether the IP asset represents Background, Non-Derivative Foreground or Derivative Foreground technology.

Background IP includes both IP in technology developed by the joint venturers prior to the formation of the JV ("Pre-existing Background IP") and in technology developed during the existence of the JV, but not pursuant to it ("New Background IP"). Specifically, Pre-existing Background IP comprises IP in technology created by each joint venturer prior to JV formation, that is necessary or useful in conducting the business of the contemplated joint venture, or required to commercially exploit the Foreground IP (as defined below). New Background IP also constitutes IP in technology necessary or useful in conducting the business of the joint venture, or required to commercially exploit the Foreground IP; but the difference lies in its development taking place during the JV and yet not pursuant to the JV development activity. The concept of New Background IP becomes more relevant in the case where one or more joint venturers is a large enterprise having multiple groups doing similar developments.

In contrast, Foreground IP describes IP associated with technology developed pursuant to the JV by the joint venturers, either individually or jointly, and in furtherance of the JV. Derivative Foreground IP is a subset of Foreground IP comprising IP developed pursuant to the JV that extends the core technology of one (and only one) joint venturer.

2. *Optimizing Rights to Use of the Non-IP Owning Joint Venturers*

a) Licenses: Exclusivity, Field of Use and Royalties

Once IP ownership is allocated, the rights of the other (non-owning) joint venturers to use such IP are defined under appropriate license provisions. These licenses include licenses among joint venturers, from a joint venturer to the new JV entity ("NewCo") if applicable, or from NewCo to the joint venturers. In this respect, many combinations of licensing parameters are possible and the joint venturers should decide at the outset which is suitable to their relationship. These licensing parameters include, e.g., whether the license is exclusive or non-exclusive, whether it is limited to a specific field of use, and whether it is royalty-bearing or royalty-free. The parameters are used in various combinations to prescribe (i.e., enable and/or restrict) permissible competitive use of the Background and Foreground IP by the joint venturers and NewCo with respect to one another.

b) Non-Competition Covenants

Non-competition covenants are a useful adjunct to IP licenses in terms of restricting competitive activity among the joint venturers on the one hand, and between the joint venturers and NewCo on the other. Non-competition covenants can be both more restrictive and less restrictive than IP licenses. They are less restrictive because they typically have a shorter term. Thus, while the IP licenses may extend during the existence of the JV (and possibly beyond), non-competition covenants are typically for a much shorter term, e.g. several years. They are more restrictive because they extend beyond use of the licensed IP by proscribing all competitive activity within a defined field. The scope of the non-compete is usually co-extensive with the area outside of any field-limited licenses.

IV. EXEMPLARY APPLICATION OF IP ALLOCATION STRATEGIES TO THE JV STRUCTURAL MODELS

IP allocation represents one of the most significant challenges facing the joint venturers. The allocation tools, discussed above in Section III B, are used to give each joint venturer and NewCo (if applicable) the rights needed to ensure the success of the venture while preserving competitive relationships among the joint venturers. Ultimately, when negotiating the JV agreement, the joint venturers must allocate IP ownership and rights of the non-owning joint venturers in a manner suitable to their relationship and objectives. Thus, this section highlights exemplary IP allocation maps under the different JV models, rather than suggesting a rigid allocation paradigm applicable in all cases.

A. Contractual Model

<table>
<tr><th>When Created</th><th colspan="2">What</th><th>Who</th><th>Ownership</th><th>Licenses (typically royalty-free)</th></tr>
<tr><td>Pre-JV</td><td colspan="2">Pre-Existing Background IP</td><td>Individually Developed</td><td>Developing joint venturer</td><td>Non-exclusive to the other joint venturer(s) within the JV field of use ("FofU").</td></tr>
<tr><td rowspan="3">During JV</td><td colspan="2">New Background IP</td><td>Individually Developed</td><td>Developing joint venturer</td><td>Non-exclusive to the other joint venturer(s) within the JV FofU.</td></tr>
<tr><td rowspan="2">Foreground IP</td><td>"Derivative" IP wholly derived from only one joint venturer's Background IP.</td><td>Individually or Jointly Developed</td><td>Whichever joint venturer owns the underlying Background IP.</td><td>Non-exclusive license to other joint venturer(s) [Could be FofU limited].</td></tr>
<tr><td>"Non-Derivative" Any other Foreground IP.</td><td>Individually or Jointly Developed</td><td>One joint venturer only; to be negotiated in advance. Could be "blanket" allocation of ownership (i.e. always to one joint venturer) or by pre-defined area of technology.</td><td>Exclusive license to other joint venturer(s) in agreed FofU.</td></tr>
</table>

Table 1: Contractual JV Model – Exemplary IP Allocation Map.

Ownership of Background IP generally remains with the developing joint venturer. The joint venturers will then grant one another non-exclusive licenses to their Pre-existing Background IP within a field of use determined by the objectives of the JV. New Background IP is treated in a similar fashion (if it is to be licensed at all).

Ownership of the Derivative Foreground IP created during the term of the JV, whether individually or jointly developed, will vest in the joint venturer whose core technology is extended. The other joint venturers will have non-exclusive licenses under the Derivative Foreground IP, possibly limited to fields of use corresponding to their non-JV related businesses.

Allocation of ownership of the Non-Derivative Foreground IP will take the form of either: (a) a predetermined or "blanket" allocation to one joint venturer; or (b) an ongoing allocation among the joint venturers based on pre-defined areas of technology. Under either ownership allocation method, the non-owning joint venturers will have an exclusive license within

carefully defined and preferably non-overlapping fields of use. If the parties cannot agree on non-overlapping fields of use, they should consider adopting an entity-based JV which would own the Non-Derivative Foreground IP (see Section IV B) or, as a last resort, revert to the joint ownership paradigm for ownership of the Non-Derivative Foreground IP, and carefully define their respective rights and restrictions with regard to exploitation and enforcement (see Section IIIA3).

"Blanket" allocation typically is feasible when the relationship between the joint venturers is one of non-equals. Namely, the joint venturer who is to own the Non-Derivative Foreground IP enjoys significant leverage in the transaction (i.e. is the larger joint venturer or contributes more capital or core technology). Also, it is critical to establish this allocation early in the JV formation process. The business principals and counsel for the dominant joint venturer must drive the negotiations to impress upon the other joint venturer(s) that the relationship is one of developers and not collaborators. From a legal perspective, because the joint venturers will be deemed joint inventors of any jointly developed subject matter under the default rules of ownership, the JV agreement should contain an affirmative assignment of the other parties' right, title and interest in any such jointly developed material to the intended sole owner. This allocation presents the cleanest solution to complex transactions, or where three or more joint venturers are involved. This allocation is also favored in the case of a long-term relationship involving many product development teams and life cycles, and in the case of complicated technology development interrelationships.

Ongoing allocation by pre-defined area of technology is preferred when the contemplated transaction is well-defined with respect to the joint venturers' business, and the timeframe and process of the IP to be developed.

B. Entity Model

When Created	What		Who	Ownership	Licenses (typically royalty-free)
Pre-JV	**Pre-Existing Background IP**		**Individually Developed**	Developing joint venturer	Exclusive for NewCo in FofU. [Could be non-exclusive].
				OR --------------	----------------------
				NewCo	Non-exclusive grantback outside NewCo's FofU.
During JV (NewCo)	**New Background IP**		**Individually Developed**	Developing joint venturer	Non-exclusive for NewCo in FofU to prevent joint venturers from competing with the JV. [Could be exclusive].
				OR---------------	----------------------
				NewCo	Non-exclusive [could be exclusive] grantback outside NewCo's FofU.
	Foreground IP	**"Derivative"** IP wholly derived from only one joint venturer's Background IP.	**Individual Joint Venturer, Multiple Joint Venturers, or NewCo**	Whichever joint venturer owns the underlying background IP.	Non-exclusive to NewCo in FofU.
				NewCo	Exclusive to joint venturer who owns the underlying IP outside NewCo's FofU [possibly with further restrictions].
		"Non-Derivative" Any other Foreground IP.	**Individual Joint Venturer, Multiple Joint Venturers, or NewCo**	NewCo	Exclusive/non-exclusive to joint venturer(s) in defined field(s) of use. [Could be royalty-free or royalty-bearing].

Table 2: Entity/NewCo JV Model – Exemplary IP Allocation Map

As in the case of the contractual model, the first step comprises providing NewCo with access to the joint venturers' Background IP. Ownership of Pre-existing Background IP and New Background IP remains with the developing joint venturer. Pre-existing Background IP is preferably licensed to NewCo exclusively in its field of use to prevent the developing joint venturer and the other joint venturers from using their Background IP to compete with the JV, thereby maximizing the likelihood that NewCo will be successful. Alternatively, such licenses could be non-exclusive. New Background IP is preferably licensed to NewCo non-exclusively in its field of use where the IP is developed by another business unit of the

developing joint venturer which needs to continue to use the IP. Alternatively, such licenses could be exclusive where such continued use is unnecessary or the developing joint venturer is willing to consolidate all activities involving the IP in NewCo. In this case, the developing joint venturer even could assign the New Background IP (and perhaps also the Pre-existing Background IP) to NewCo, with a grantback outside NewCo's field of use. The Background licenses to NewCo are typically royalty-free.

Derivative Foreground IP may be developed by a single or multiple joint venturers, or by NewCo itself. Ownership will vest in the joint venturer whose core technology is extended by the Derivative Foreground IP, or in NewCo. Under the first option, NewCo will be granted a non-exclusive license to the Derivative Foreground IP in its field of use. Alternatively, if NewCo owns the Derivative Foreground IP outright, the joint venturer owning the underlying IP will be granted an exclusive license outside NewCo's field of use. Under either option, the other joint venturers should not be licensed under such Derivative Foreground IP, especially where they are competitors of the joint venturer owning the underlying IP. Here as elsewhere, exclusivity and field of use limitations serve to regulate competition among the joint venturers, and between the individual joint venturers and NewCo.

Non-Derivative Foreground IP, whether developed by a single joint venturer or multiple joint venturers or by NewCo, will be owned by NewCo and all joint venturers will be licensed under such IP. The licenses may be exclusive or non-exclusive and will be limited to carefully defined fields of use, in effect shielding NewCo from the joint venturers' development of competing technology to the Non-Derivative Foreground IP. Also, such fields of use are often mutually exclusive as between the individual joint venturers. Vesting ownership of the Foreground IP in NewCo and granting only non-exclusive licenses to the joint venturers allows NewCo to also license third parties. The joint venturers must decide whether any licenses granted by NewCo should be royalty-free or royalty-bearing. Here, arguments exist for both types of licenses. On the one hand, NewCo should be able to generate revenue from

Non-Derivative Foreground IP and thus these licenses should be royalty-bearing. On the other hand, the joint venturers bore the risk in forming NewCo and thus should be rewarded with royalty-free licenses, in contrast to third parties whose licenses (if any) should be royalty-bearing.

Generally, IP allocation under the entity model favors the sharing of each joint venturer's core technology or "crown jewels" with the newly formed JV entity while at the same time shielding the related IP from the other joint venturers. Moreover, this allocation facilitates NewCo's licensing of Foreground IP and enforcement of rights against third parties.

C. Two-Stage Model

The two-stage model contemplates an initial (sometimes called "interim") contractual joint development phase, followed by the formation of an independent JV entity (i.e. NewCo) in which the joint venturers would participate as equity owners. The contractual phase is used to allow preliminary collaboration while conducting technical and/or commercial feasibility studies. If feasibility is demonstrated, the contractual phase is terminated in favor of NewCo. If feasibility is not demonstrated, the contractual phase is terminated and the JV does not proceed any further.

As usual, there will be pre-JV IP that has to be licensed to the JV (contractual and/or NewCo). This is addressed in Table 3(a).

1. Pre-JV

When Created	What	Who	Ownership	Licenses (typically royalty-free)
Pre-JV	**Pre-Existing Background IP**	**Individually Developed**	Developing joint venturer. [If any NewCo FofU-specific IP in Background, consider assignment to NewCo if/when formed].	Limited [non-exclusive] FofU cross-licenses among all joint venturers for use incident to JDP duties; terminates upon conclusion of JDP or if NewCo is not formed. Upon NewCo formation, non-exclusive FofU license to NewCo (or exclusive FofU to support non-compete). No license to other joint venturer(s). NewCo may sublicense its rights only to second source manufacturers.

Table 3(a): Two-Stage JV Model – Exemplary IP Allocation Map: Pre NewCo

Pre-existing Background IP, developed and owned by one joint venturer prior to JV formation, will be licensed: (a) to the other joint venturers for limited use during the contractual phase of the JV; and (b) to NewCo in its field of use thereafter. Typically, the licenses to the individual joint venturers would be nonexclusive and terminate upon conclusion of the contractual joint development phase (whether NewCo is formed or not). Typically, the licenses to NewCo would be nonexclusive in NewCo's field of use. Alternatively, these licenses could be exclusive in NewCo's field of use to ensure that the licensor-joint venturer will not compete with NewCo.

2. *Joint Development (Contractual) Phase*

When Created	What	Who	Ownership	Licenses (typically royalty-free)
Joint Development Phase ("JDP")	**New Background IP**	**Individually Developed**	Developing joint venturer.	Limited [non-exclusive] FofU cross-licenses among all joint venturers for use incident to JDP duties; terminates upon conclusion of JDP or if NewCo is not formed. Upon NewCo formation, non-exclusive FofU license to NewCo [or exclusive FofU to support non-compete]. No license to other joint venturer(s). NewCo may sublicense its rights only to second source manufacturers.
	Derivative Foreground IP	**Individually or Jointly Developed**	Joint venturer whose core technology is extended. [Does a joint venturer who fails to enter into the NewCo formation agreement forfeit ownership?]	Limited [non-exclusive] FofU cross-licenses among all joint venturers for use incident to JDP duties; terminates upon conclusion of JDP or if NewCo is not formed. Upon NewCo formation, non-exclusive FofU license to NewCo [or exclusive FofU to support non-compete]. No license to other joint venturers. NewCo may sublicense its rights only to second source manufacturers.
	Non-Derivative Foreground IP	**Individually or Jointly Developed**	Developing joint venturer(s), but assigned to NewCo upon NewCo formation. If NewCo is not formed, ownership remains with developing joint venturer(s), but with prohibition on use for X years.	Limited [could be exclusive] cross-licenses between all joint venturers for use incident to JDP duties; terminates upon conclusion of JDP or if NewCo is not formed. Upon NewCo formation, non-exclusive license back to developing joint venturer or joint venturers outside of NewCo's FofU [or exclusive within their Primary Business FofU (could be non-overlapping and non-NewCo)]. Developing joint venturer who fails to enter into Definitive Agreements forfeits this license.

Table 3(b): Two-Stage JV Model – Exemplary IP Allocation Map: Joint Development Phase

New Background IP would be owned by the joint venturer that developed it. Derivative Foreground IP would be owned by the joint venturer whose underlying IP was extended. In either case, such joint venturer would license other joint venturers (in the contractual phase) and NewCo (in the entity phase) in a similar manner as Pre-existing Background IP discussed above.

Ownership of the Non-Derivative Foreground IP will vest initially in the developing joint venturer(s) with subsequent assignment to NewCo upon formation. Pending NewCo formation, all joint venturers will be cross-licensed for use incident to their duties relating to the contractual joint development phase. These licenses will terminate upon conclusion of that phase (whether NewCo is formed or not).

Additionally, if NewCo is never formed, ownership of the Foreground IP will remain with the developing joint venturer(s), possibly with a prohibition on use for a specified number of years (to incentivize formation of NewCo).

3. NewCo (Entity) Phase

When Created	What	Who	Ownership	Licenses (typically royalty-free)
NewCo Phase	**New Background IP**	**Individually Developed**	Developing joint venturer.	No license to other joint venturers. Non-exclusive FofU license to NewCo [or exclusive FofU to support non-compete]. NewCo may sublicense its rights only to second source manufacturers.
	Derivative Foreground IP	**Individually or Jointly Developed, or NewCo Developed**	A. Joint venturer whose core technology is extended OR------------ B. NewCo	A. Non-exclusive royalty-free FofU license to NewCo. No license to other joint venturers. --- B. Exclusive within FofU of joint venturer whose core technology is extended [could be in all areas outside of NewCo FofU].
	Non-Derivative Foreground IP	**Individually or Jointly Developed, or NewCo Developed**	NewCo	A. Non-exclusive royalty-free FofU license to joint venturers. OR--- B. Exclusive within FofU of joint venturer whose core technology is extended [could be in all areas outside of NewCo FofU].

Table 3(c): Two-Stage JV Model – Exemplary IP Allocation Map: Post NewCo Formation

New Background IP created post NewCo formation would be owned by the developing joint venturer and licensed non-exclusively to NewCo in its field of use. Alternatively, NewCo's license could be exclusive. NewCo may

also be granted a right to sublicense, limited to second source manufacturers. Non-owning joint venturers will have no rights to the owning joint venturer's New Background IP.

Derivative Foreground IP may have been created by NewCo or by one or more of the joint venturers. Such Derivative Foreground IP typically will be owned by the joint venturer whose core technology is extended or, in some cases, by NewCo. Where ownership of the Derivative Foreground IP vests in the joint venturer, NewCo will have a non-exclusive royalty-free license in its field of use. In contrast, where ownership vests in NewCo, the joint venturer owning the underlying technology will have an exclusive license within its primary business field of use, or in all areas outside of NewCo's field of use.

Non-Derivative Foreground IP may also have been created by NewCo or by one or more of the joint venturers. In any event, such Non-Derivative Foreground IP will typically be owned by NewCo with non-exclusive royalty-free licenses to the joint venturers outside of NewCo's field of use. Alternatively, these licenses could be exclusive within each joint venturer's field of use, provided there is no overlap between the joint venturers' respective fields (or with NewCo's field). Finally, the licenses from NewCo to the joint venturers could be royalty-bearing.

V. EXIT STRATEGIES

This section examines the disposition of the IP assets under different exit strategies available for the unwinding of the joint venture business. Possible exit strategies include merger or acquisition, dissolution, and bankruptcy. The IP assets of concern include owned IP (e.g., patents, trademarks and copyrights for which the JV itself is the registered owner, and trade secrets), and licensed-in IP (e.g., inbound IP licenses from the joint venturers and from third parties).

For convenience, the disposition of IP assets will be discussed in the context of a separate JV entity, although many of the concepts will be equally applicable to rights held by an individual

joint venturer for the benefit of itself and its partners in the joint venture.

A. Merger or Acquisition of the JV Entity

If the joint venturers wish to allow for the possibility of merger or acquisition of the independent JV entity, they should negotiate appropriate provisions at the time of forming the JV entity. For example, all inbound licenses should be negotiated and drafted to facilitate their transfer to a potential acquirer of the JV business.

Also, a joint venturer might wish to be protected in the event the JV is acquired by a competitor, for example, by a provision automatically terminating any inbound license from such joint venturer upon a change of control of the JV to a competitor of the minority joint venturer. These competitors may be expressly identified or not. Or, if the license is not terminated, its scope can be "frozen," limiting it to the portion of the acquirer's business represented by the JV before the acquisition. These provisions ensure that, after the acquisition of the JV entity by a competitor of a joint venturer, any inbound licenses from such joint venturer to the JV entity do not accrue (or only accrue in a limited way) to the benefit of the competitor.

B. Dissolution of the JV Entity

Dissolution of the JV entity as an exit strategy must be analyzed in terms of three distinct considerations: IP owned by the JV entity, IP licensed from third parties, and IP licensed from the joint venturers.

1. IP Owned by the JV Entity

The analysis of the disposition of the owned IP further must be divided into two competing objectives: protecting the joint venturers' right to use and preventing the joint venturers' continued right to use such IP.

Where the joint venturers wish to continue to make use of the IP owned by the JV following its dissolution, assignment of the IP to the joint venturers as joint owners should be avoided because doing so raises the problems of joint

ownership already discussed in III A above. Instead, ownership of the IP assets should vest in one joint venturer with grantback licenses flowing to the other former joint venturers. Alternatively, the joint venturers can choose to maintain the JV solely as an IP holding company (i.e. a shell company) where the joint venturers in turn have a license under the IP. The latter alternative of establishing an IP holding company is especially advantageous for enforcing the joint venture's IP rights against third parties and for the further licensing of the IP to third parties if so desired by the joint venturers. In either case, the scope of any licenses to the former joint venturers (e.g., term of the license grant, exclusivity provision, right to sublicense, field of use, royalty payment, etc.) should be negotiated at the time of forming the JV entity.

Another option is to structure the JV agreement to prohibit grantback licenses. This has the benefit of discouraging dissolution of the JV in the first instance. However, the IP assets risk being wasted unless a third party buyer can be found. Alternatively, the JV agreement could provide that a specified joint venturer has the right to buy out the other joint venturers upon dissolution of the JV, and thus to gain sole ownership of the owned IP. The proceeds from the owned IP will be distributed to the joint venturers in accordance with their original equity stakes in the JV.

2. Inbound Licenses from Third Parties

Inbound licenses from third parties represent an asset of the JV just like the owned IP and thus will be treated in a similar manner. Issues relating to the inbound licenses, such as their transferability, divisibility and sublicensing, should be specified at the time these licenses are negotiated.

3. Inbound Licenses from Joint Venturers

Joint venturers inbound licenses typically cover background IP of the joint venturers closely related to their individual fields of business. Thus, upon dissolution, these licenses usually revert back to the granting joint venturer. However, in some instances, the licensor subsequently may grant equivalent field of use licenses to the other former

joint venturers under separate license agreements. Again, these options should be contemplated at the time of JV formation.

4. Outbound Licenses from JV entity

The JV also may have granted licenses to third parties (i.e., outbound licenses). Upon dissolution, such licenses can either be: (i) left with the JV to be disposed of as part of the corporate unwinding process; or (ii) transferred to an entity that obtains ownership of the underlying (IP, technological and/or human) assets related to the subject matter of the license. If the license is a "naked" license that includes no obligations on the part of the licensor (i.e., the JV), option (i) is acceptable. But if the license imposes any such obligations (e.g., support, updates, maintenance, further development, etc.), then choice (ii) is appropriate (and the licensee will so insist).

VI. CONCLUSION

IP allocation represents one of the most important strategic assessments when considering a joint venture and should be addressed in the JV agreement itself at the time of formation. Preferably, the joint venturers are advised to avoid joint ownership of the developed IP in favor of one of the alternate IP allocation models presented in this paper or otherwise. In these alternative models, ownership of each distinct IP asset is granted to an individual party (e.g., joint venturer or the JV entity), with appropriate licenses to other parties as needed. It is also important to plan in advance for possible dissolution of the JV, so that ownership and rights to use the JV's IP assets are appropriately distributed among the former joint venturers.