
Sharing the Intangibles

Ownership of IP in
Collaborative Engagements



SUMMARY OF VOL. 1

In our previous IP Strategy Report, we discussed the importance of executing a collaboration agreement as a first step in any collaborative engagement. A collaboration agreement cements the rights and obligations of each party to the collaborative engagement, including the intellectual property rights implicated or created over the course of the engagement.

In order to ensure that the full range of implicated IP rights is considered under a collaboration agreement, we discussed that parties should stratify IP rights based on the timing and circumstances of their creation, with the result often being four strata of rights: [background IP](#), [foreground IP](#), [sideground IP](#), and [postground IP](#).

For each stratum, we emphasized that parties need to address certain considerations. Across all strata, a key consideration is the ownership of IP assets.

INTRODUCTION

Collaborative engagements between combinations of large and small private and public companies, academia, governments, and NGOs often utilize or result in the creation of intangible assets. These collaborations raise unique intellectual property-related questions, such as the optimal allocation, ownership, and exploitation of intangible assets by the parties to the collaboration. Harmonizing parties on the answers to such questions is critical to the ultimate success of the collaboration.

In particular, clearly structured joint ownership helps parties to a collaborative engagement retain the value of pre-existing IP and enhance the value of resultant IP assets. This paper provides a starting point for structuring the joint ownership of IP assets by surveying three [joint ownership strategies](#) that parties can leverage in a collaboration agreement (“CA”):

- Common law or statute-derived ownership (the *de facto* structure);
- Contractual joint ownership; and
- Joint ownership through a special purpose vehicle.

Each strategy is mapped onto a spectrum of two inversely related complexities:

- The complexity of the ownership structure (or how complicated the structure is to set up and maintain); and
- The legal complexity of joint ownership (or how complicated the legal relationship among the joint owners is).

The parties’ decision on the structure of joint IP ownership, including the balancing of legal complexity and the complexity of the ownership structure, should be informed by the particular circumstances of their collaborative engagement. Key considerations are provided.

Decisions the parties make regarding IP ownership should be complimented by preliminary due diligence and adjacent decisions regarding disclosure obligations, confidentiality, compensation mechanisms, and use permissions.

KEY TAKEAWAYS

When entering a collaborative engagement and drafting a collaboration agreement, parties should be mindful of how they intend to handle the ownership of relevant IP assets. Three common starting points exist for structuring joint ownership:

- Common law or statute-derived ownership (the *de facto* structure);
- Contractual joint ownership; and
- Joint ownership through a special purpose vehicle.

In choosing a joint ownership structure, parties are effectively balancing two forms of complexity: the complexity of the structure itself and the complexity of the resulting legal relationship between the parties. The *de facto* structure is the simplest to set-up and maintain but typically results in the most legal complexity. A special purpose vehicle, on the other hand, is more complicated to set-up and maintain but simplifies ownership under a single corporate entity. Contractual joint ownership provides a middle ground.

Parties can make informed decisions on ownership structure by reviewing key considerations, including:

- The volume and form of IP assets in play;
- The available resources of the parties;
- The size and sophistication of the parties;
- Tax, liability, and other strategic considerations; and
- The general complexity of the engagement.

Once a framework for joint ownership is established, the parties should make adjacent decisions regarding disclosure obligations, confidentiality, compensation mechanisms, and use permissions.

A PRELIMINARY STEP: DUE DILIGENCE

As a first step, parties should perform a due diligence review of their IP portfolios, and the IP portfolios of their counterparties, at the time they begin contemplating the terms of a collaboration agreement. Performing due diligence helps create clarity on the state of each party's IP portfolio at the start of the collaborative engagement.

INTERNAL AND EXTERNAL DUE DILIGENCE

Internal due diligence, a review and classification of a party's own IP assets, helps identify relevant IP that may be contributed to the collaborative engagement and may facilitate compliance with any agreed-upon disclosure obligations.

External due diligence, a review of each counterparty's IP portfolio, can confirm whether the collaborative engagement will drive value and may help head off future ownership disputes.

DETERMINING OWNERSHIP IN THE FIRST INSTANCE

Due diligence can also help parties avoid conflicts that could result if IP accrues to non-company entities. Such issues in determining ownership are more prevalent for forms of IP that subsist automatically, where employees create or invent outside the scope of their agreed upon duties, or in the absence of IP assignment agreements.

For example, consider co-authors at Company A and Company B who each contribute substantial copyrightable subject matter to a collaborative engagement on behalf of their respective companies. The co-author at Company A is an employee, and the co-author at Company B is an independent contractor. In Canada, where a work is completed by an author in the context of their duties as an employee, the employer is presumably the first owner of the work. However, where the author is an independent contractor, the author will be the first owner unless assignment of copyright to the employer is explicitly contemplated by contract. It is possible that the CA between Company A and Company B will fail to address the independent contractor's rights in the collaborative work.

Ensuring that appropriate mechanisms are in place to capture IP at the company level avoids value leakage and potential contractual disputes between parties to a CA.

A TALE OF TWO COMPLEXITIES

It can be helpful to think of the joint ownership strategies presented in this report as existing along a spectrum of two inversely related complexities:

1. **The complexity of the ownership structure**, which considers the effort and expense that parties will need to expend to create and maintain a particular joint ownership structure; and
2. **Legal complexity**, which is used in this report to describe the ownership-related legal complexities that may be caused by the joint ownership structure implemented - for example, the legal clarity of each joint owner's rights or the availability and cost of dispute resolution mechanisms.

As shown in Figure 1, below, the two complexities tend to be inversely related. For example, decreasing the legal complexity of joint ownership usually means using a more complex ownership structure.

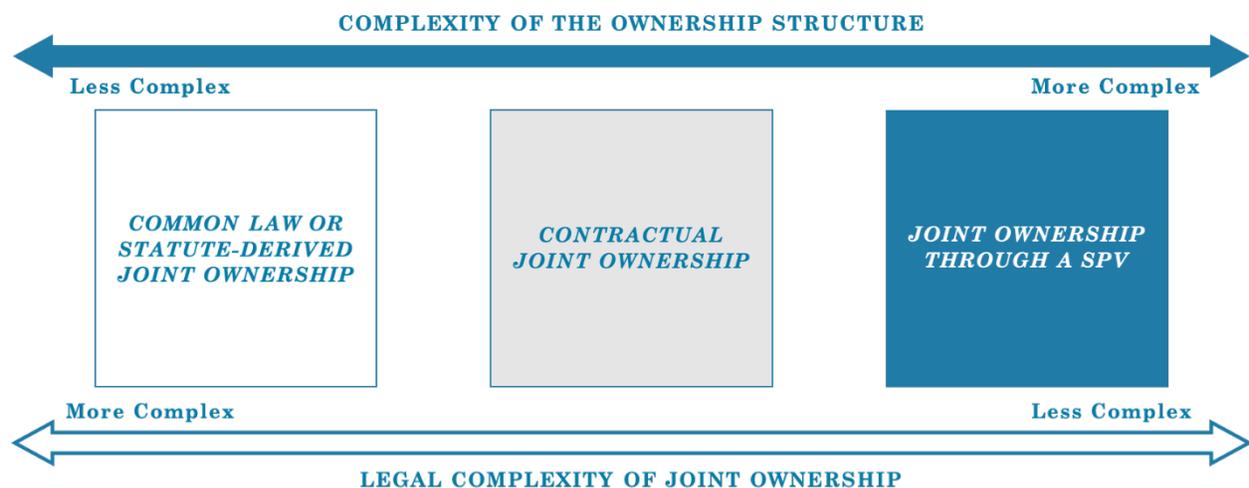


Figure 1: spectrum of competing complexities.

COMMON LAW OR STATUTE-DERIVED JOINT OWNERSHIP

low complexity of ownership structure | high legal complexity of joint ownership

Where a CA is silent on IP ownership and the parties do not otherwise agree on a mechanism for allocating ownership rights, ownership of IP assets co-developed or applied for by collaborating parties could be governed by common law or statutory presumptions. Parties often proceed under this *de facto* structure for convenience or as a result of inadvertence. Sometimes a CA might include an explicit clause stating that, for example, patent ownership will be in accordance with inventorship, leading to the same result.

Joint ownership under common law or statute (referred to here as *de facto* joint ownership) affords the obvious benefit of simplicity. Certain characteristics of *de facto* joint ownership, however, can create unexpected legal complexity and erode the value of IP assets.

De facto joint ownership means that each party's rights are governed entirely by the prevailing law. The extent to which a party can unilaterally commercialize or enforce, or prevent counter-parties from commercializing or enforcing, an IP asset therefore depends on the IP rights and the jurisdiction involved. For example, consider the complexity created when a Canadian patent or copyrighted work is jointly owned. In Canada, joint owners of patents and co-authors of copyrighted works have been viewed as tenants in common,¹ which generally gives rise to the characteristics and complexities set out in Table 1, below.

Characteristic of Tenancy in Common	Complexity it Creates
Any co-owner can independently assign their entire interest to a third party without the consent of the other co-owner(s).	Parties can find themselves in joint ownership arrangements with competitors or unknown third parties.
Each co-owner can exercise their rights without liability to the other co-owner(s).	Parties can exercise their rights in a competitive manner, which may reduce the commercial value of their co-owner's rights.
A co-owner cannot license the IP to a third party without the unanimous consent of other co-owner(s).	The parties' ability to commercialize IP assets through licensing can be frustrated by a single hold-out.

Table 1: characteristics and complexities of tenancy in common.

Despite providing the benefit of simplicity, *de facto* joint ownership is likely to be a drag on a collaborative engagement, should be selected with caution, and may only be appropriate between related entities or companies that have extensive experience working together and deep mutual trust.

¹ Note however, many questions regarding the rights of co-owners of intellectual property remain unsettled - a further reason to clarify parties' respective rights and obligations in contract as discussed below.

CONTRACTUALLY MODIFYING *DE FACTO* OWNERSHIP

moderate complexity of ownership structure | low legal complexity of joint ownership

Parties can alter the characteristics of their joint ownership contractually through their collaboration agreement. This strategy of jointly owning IP through contract represents a relatively simple and cost-efficient way to reduce the risk and uncertainty associated with *de facto* ownership. Several applicable contractual mechanisms are discussed below.

CONTRACTUAL WAIVERS AND PERMISSIONS

The simplest way to reduce the complexities that result from *de facto* joint ownership is to contractually agree on terms, including the rights to assign, exercise, and license jointly owned IP assets, and obligations to maintain, enforce, and defend IP. In doing this, parties effectively waive, or create permissions and obligations that are distinct from, the rights available under common law or statute.

For example, it is common for CAs to include contractual permissions allowing parties to grant non-exclusive licenses to third parties. Such permissions may be refined by specifying sectors or industries where such licenses are or are not permitted, as well as the range of appropriate licensing royalties that can be offered and how licensing revenues are to be allocated among parties.

A collaboration agreement that leverages contractual waivers and permissions may allow:

- Joint owners and other collaborative engagement participants to use the IP royalty-free for research activities related to the purpose of the engagement.
- Joint owners to use the IP for commercial reasons and license or transfer the IP to pre-identified third parties upon notice and without compensation to the other joint owners, though the other joint owner(s) is often given an approval right. Transfers to third parties that are not pre-identified may be further constrained and are more commonly subject to an approval right of the other joint owner(s).
- Other collaborative engagement participants to use the IP for commercial purposes related to the collaborative engagement on fair and reasonable licensing terms or royalty-free where the use is critical to the purpose of the engagement.

Alternatively, some CAs require joint owners to enter into ownership agreements within a specified period after the creation of a new jointly owned IP asset. The ownership agreement would then govern the relationship between the owners and potentially their relationship with other participants. The CA may provide a template ownership agreement as a schedule or include required terms.

Other common contractual terms include provisions that: alter the licensing/use permissions where the joint owners are not utilizing the IP, clarify how background and foreground IP is demarcated for new participants, and explain what happens to the rights of owner(s)/participants when they leave the collaborative engagement voluntarily or as a result of a default. A

CA should also consider whether sideground IP can be in-licensed or assigned to collaborators, and whether any joint ownership provisions will apply to postground IP developed by any of the parties.

GOVERNING BODIES

For more complex collaborations, a general assembly, board of directors, or steering committee can be created to augment contractual joint ownership. Such governance structures are a typical feature of CAs and can facilitate joint IP ownership through increased flexibility.

The governing body of a collaborative engagement is often tasked with approving annual plans for the project, allocating resources, managing inter-participant relationships, and handling disputes. Consequently, they are well positioned to address IP ownership both proactively and as issues arise.

Proactive IP management can be incorporated into the annual plan, as a condition of resource allocation, or through policies and regulations. More reactive IP management can be achieved through oversight on ownership agreements or mediation and dispute resolution mechanisms.

IP ALLOCATION

As an alternative to joint ownership, some CAs instead provide mechanisms by which new foreground IP is allocated entirely to one entity. Common allocation mechanisms assign ownership:

- To the party who contributed the most resources to the development of the IP;
- Based upon jurisdiction; or
- Based on utilization/commercialization needs.

Where foreground IP is allocated to a single party, careful attention must be given to the rights granted to the remaining participants (especially use permissions), which may be more expansive than the rights granted under a joint ownership regime and create unanticipated encumbrances. The parties must also consider how the responsibilities to maintain and protect the IP are distributed, if at all.

JOINT OWNERSHIP THROUGH A SPV

high complexity of ownership structure | low legal complexity of joint ownership

Holding IP through a special purpose vehicle (“SPV”), typically a corporate entity, is a more complex joint ownership strategy. The IP is held by a single entity, the SPV, which in turn can be controlled by the joint owners (for example, as shareholders).

The SPV model is appealing because it streamlines ownership of the IP asset - use, licensing, assignment, maintenance, and enforcement activities are all undertaken at the singular corporate level. The result is less legal complexity regarding the right to make such decisions or undertake such activities. Decision-making authority is built into the SPV structure through the board of directors.

The SPV may in some cases be used to limit liability or separate revenue streams. Using a SPV limits the risk exposure of the underlying joint owners, as liability is contained within the corporation. By reinvesting corporate incomes (instead of cashing-out through dividends, etc.), joint owners may be able to take advantage of tax planning benefits.

Potential disputes among joint owners are not entirely eliminated through a SPV, but instead are addressed through, among other things, the corporation’s constating documents or a comprehensive shareholders’ agreement. Such documents would contemplate similar terms as those discussed in the section above.

The main drawback of using of a SPV is the administrative complexity it creates. A SPV must be organized and capitalized to carry out its activities, which will often require input from various professionals (lawyers, accountants, etc.). The particular structure of the SPV will vary depending on where it is incorporated to reflect the laws of that jurisdiction. In most cases, however, the SPV will be subject to filing, disclosure, and other administrative requirements on an annual basis.

CONSIDERATIONS FOR CHOOSING A STRATEGY

Decisions on the structure of joint IP ownership should be informed by the particular circumstances of a collaborative engagement, including the following:

Volume and form of IP assets in play - where few IP assets are integral to the collaborative engagement, or where such assets do not drive significant value, the parties to the engagement may prefer a simpler ownership structure, notwithstanding the potential legal complexity that may result. On the other hand, a high volume and value of IP in the collaborative engagement may justify the economics of a more complex ownership structure, allowing the parties to benefit from reduced legal complexity.

Available resources of the parties - as the complexity of the ownership structure increases, typically so does the cost. Therefore, parties with few resources or that intend to run lean operations may elect a simpler ownership strategy. Short term savings may be erased, however, where disputes arise as a result of the legal complexities of simple joint ownership.

Size and sophistication of the parties - the size and sophistication of the parties will read on to the available resources of the parties, discussed above, but may also give rise to power imbalances. Where significant power imbalances exist between the parties, more thorough (complex) ownership structures may help reduce potential disputes down the line.

Tax, liability, and other considerations - the decision to utilize an SPV may be informed by tax, liability, or other strategic considerations apart from the nature of the IP or the parties.

General complexity of the engagement - finally, the complexity of the ownership structure should be appropriately balanced with the complexity of the collaborative engagement. A short-term engagement between only a few parties may suffice with a contract-based ownership structure. However, a longer-term engagement that requires significant capitalization may warrant the use of a SPV.

ADJACENT STRATEGY DECISIONS

Depending on the joint ownership strategy selected, additional decisions may need to be made regarding disclosure obligations and confidentiality, compensation mechanisms, and use permissions.

Disclosure obligations and confidentiality - most CAs require parties to disclose relevant background IP. To feel comfortable doing so, many participants will want to see corresponding confidentiality obligations that protect sensitive information. Parties also often set disclosure obligations and confidentiality measures for IP created throughout the engagement.

Compensation mechanisms and use permissions - parties will also need to agree on what use permissions are granted to participants by IP owners and how the owners are to be compensated for such use. As discussed above, use permissions and compensation mechanisms typically vary depending on the type of IP, who it is to be used by, and for what purposes.



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