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Protecting Innovation: You invented it, but how much do you own?

How joint inventors, joint owners and business collaborations impact the bottom line

By Susan Gorman, Ph.D., Esq.

The law clearly provides owners of invention with full right, title, interest and control of the invention. But that clarity quickly blurs when multiple inventors and collaborators start working together to commercialize innovation. In such cases, inventors are well-advised to think early about their long-term objectives so they can protect their interests and maximize their ability to profit in an ongoing way.

As a rule, joint inventors together own the entire right, title and interest of the intellectual property. That means they share ownership equally regardless of who contributed what. In the absence of any agreement to the contrary, each joint owner has the right to practice the entire invention without the permission of the other inventors and has no duty to share with the other inventors any portion of the profits made by exploiting the invention.[1]

Consider a case in which Persons A, B, and C own a patent consisting of 10 claims involving a three-legged stool and a chair. Persons A and B both contributed to the concept of the stool set forth in claims 1-9 as well as the concept of the chair described in claim 10. Person C contributed only to the concept of the chair described in claim 10. Even though the contributions of the inventors are different, Person C owns just as much of claims 1-9 as do persons A and B.

The Impact of Joint Ownership on Business Dealings

Absent any other agreement, if Persons A, B and C decide to form a company, "Acme," to sell chairs, they retain joint ownership. However, if one of the partners has a falling out and leaves to form her own company – let's call it "Novo" – there is little the other two partners can do to stop her.

Person C, the owner of "Novo" can compete directly with "Acme" without any obligation to inform, obtain permission from, or share profits with Persons A and B. And, unfortunately, there is nothing that persons A and B can do to prevent C from making and selling the invention because as a joint owner, C is entitled to practice and profit from the invention.

To avoid this type of problem, when joint owners are forming a new company, they can do one of two things to ensure that they will profit from the patent application or patent:

- Contract for rights
- Execute an assignment.

GORMAN IP LAW

Contracting Rights

Contracts set forth exactly how the rights will be apportioned. For example, profit sharing among the owners regardless of who exploits the patent, allocating separate, exclusive rights to the patent in different geographical regions, or giving each owner exclusive rights to particular claims. Generally speaking and upon the agreement of all parties, the contract can be revised to alter apportionment of rights, unlike an assignment document.

Assigning Rights

Alternatively, each owner can execute an assignment document that irrevocably transfers all of his or her rights to the company, in which case the company becomes the patent owner. Here, each joint owner must execute the assignment or ownership will remain divided, now between the company and the non-signing inventors/owners.

Consequently, when joint inventors/owners form a company they are well advised to require that each assign his/her patent rights to the company at its creation to ensure the greatest potential for commercial success. Strong employment agreements are then put in place for the new company's employees in order to further protect the company's intellectual property.

Partnerships, Collaborations and Joint Ventures

But what happens when two companies or institutions have a joint collaboration agreement and employees of both companies are named as inventors on a resulting patent application?

Assuming that those employees have employment agreements (Click here for related article) that require assignment of all inventions to the company/institution that they work for, joint ownership ensues where patent rights are shared by the collaborating companies/institutions.

Unless some agreement to the contrary has been reached, each owner has an undivided equal share and owes no obligation to the other owners when exploiting the invention. It is easy to see that if the employees of two companies are named as joint inventors, joint ownership may not meet the business needs of each of the companies, or worse, can actually be adverse to each of the company's business objectives. Consequently, it is critical to have appropriate collaboration agreements in place.

This is especially true when the joint collaboration uses very different resources from each of the participating companies/institutions. To illustrate, consider the following example: Company A is research oriented and has developed a proprietary drug compound that is useful for treatment of gastrointestinal inflammation. Company A would like to develop and market a tablet form that uses an FDA approved coating which protects the drug from breakdown in the stomach and then allows timed

release in the intestine. While Company A does not have in-house expertise in optimizing the formulation of timed-release coatings, Company B, which is focused on manufacturing, does.

Companies A and B are in the process of negotiating a collaboration agreement that specifies that Company B will optimize formulation and then manufacture the drug, sharing in the profit from its sale. However the scientists at both companies are anxious to get started and begin collaborating on the optimization experiments before the agreement is finalized.

Unfortunately, negotiations break down. Company A completes the few remaining experiments by itself and files a patent application with claims properly naming only Company A inventors. The drug is sold with the time-released coating and is a blockbuster because of its time-release profile. Despite the fact that Company A relied on Company B's expertise and investment in formulation optimization, (Click here for related article) because the patent names only Company A's employees as inventors and because no joint collaboration agreement was finalized, US law recognizes only Company A's claim to ownership of the patent. This means that Company A can license or sell their IP rights to anyone they wish, including Company B's significant competitor.

While U.S. law defines ownership in terms of inventorship when no other contractual agreement is in place, U.S. law also recognizes that parties can contract for joint ownership based on many other considerations. It is perfectly acceptable to allocate patent ownership and/or patent rights based on criteria other than inventorship, but it is important to realize that in the absence of such contracts or agreements, ownership will be attributed based on inventorship.

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[1] 35 U.S.C § 262