

Collaborate Now to Avoid the IP Dispute Later

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A manufacturer with deep product expertise decides to build a new production line. It knows the product inside and out from years of work in the lab. But achieving efficient production at commercial scale requires expertise the manufacturer does not have in-house. So, the manufacturer partners with an equipment supplier.

The collaboration succeeds, perhaps too well. Combining the manufacturer's product knowhow with the supplier's process expertise produces an improved product. Along the way, the two companies also solve a difficult scale-up challenge by modifying the process equipment itself. However, without a joint development agreement (JDA) addressing ownership in advance, neither company may end up owning, or being free to exploit, the inventions it assumed it would control. The manufacturer may find itself locked into one supplier's equipment, unable to build its next line with a different vendor without losing the benefit of an improvement it helped create. Or the equipment supplier may find that a competitor has been handed free access to a solution it spent months developing for one customer's problem.

The default rule creates two layers of unintended ownership. The default rule in the U.S. is that an inventor owns his or her invention. It vests ownership in the individual employee, not the employer. Absent an assignment of invention agreement between each employee and his or her company, an improvement belongs to that employee personally, not the company employing him or her.

When employees from two different companies contribute to the same invention, the individuals become joint inventors, and their employers become joint owners of any resulting patent. Joint ownership sounds like a fair compromise, but it rarely functions as one. Each joint owner may make, use, sell, or license the invention without the other owner's consent and without owing the other owner any share of the profits. A collaboration meant to build a competitive advantage could instead hand that advantage to a rival.

Benefits of a JDA. A JDA can solve both layers of unintended ownership. The first layer is solved by assignment of invention agreements between each company and its own employees. A JDA should not assume these agreements exist. It should require each party to represent that its employees are bound by them, and to obtain them for any employee who is not. The second layer is solved by the JDA itself, replacing the default rule with terms the parties intend.

Background IP is what each party brings to the table. For the manufacturer, that includes its product formulation, performance data, and knowhow about what the product needs to do. For the equipment supplier, that includes its existing equipment designs, process control software, and

manufacturing techniques developed across other customer relationships. A JDA should identify this background IP specifically and state whether either party is licensing it to the other, and for what purposes. The equipment supplier will likely need to license its existing equipment designs so the manufacturer can build and operate the new line. The license may be limited to one line or extend to future lines, and it may or may not survive the parties' current relationship. This is a decision that should be negotiated to support each party's objectives.

Foreground IP is anything new from the collaboration. Its value and direction are unknown until well into the project, which is why it deserves attention before the project starts. There is no single right answer for allocating it, and a JDA can mix approaches depending on the invention involved.

One option lets the manufacturer own inventions that improve the product itself, since it will use that product long after the supplier relationship ends. The supplier owns improvements to its own equipment or technique. Each party owns what it is best positioned to use going forward, regardless of which engineers contributed the key ideas. Another option ties ownership to who pays more. A manufacturer wanting to fully own the improved process can negotiate this by paying the supplier more for its engineering time, buying out the supplier's interest. Conversely, the manufacturer might pay less and forego ownership of the process improvement, leaving the supplier free to commercialize it elsewhere.

Choosing the right approach depends on strategy. If the supplier owns the process improvement outright, and the manufacturer's license is limited to that supplier's equipment, the manufacturer may find itself locked in when it wants to use a different vendor for its next line. A JDA can address this by granting the manufacturer a license to direct the underlying process knowhow to a new supplier, while barring disclosure of the original supplier's proprietary design details. This lets the manufacturer describe what the process needs to achieve without revealing how the prior machine achieves it. Thus, the supplier will not have to treat its own investment as a free upgrade for competitors.

Terms are best negotiated before an invention exists. A JDA that confirms employees are bound to assign their inventions, defines background and foreground IP, allocates ownership based on need or compensation, and preserves each party's ability to use what it needs going forward costs far less than sorting out ownership after the fact. **CEP**

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