

Protecting Your Intellectual Property From Your Strategic Alliance Partner

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I was asked recently by David Snyder from BayPay (thanks to a kind referral from Allen Weinberg at Glenbrook Partners) to participate in an upcoming BayPay panel on partnering in the payments industry. My role would have been to provide a perspective on the intellectual property issues posed by partnering in its various forms. Although I was unable to participate, I promised to write down my thoughts on the subject and share them with him, and as it turns out, others (that would be you).

“Partnering” first became fashionable as a business model nearly 30 years ago, although joint ventures have existed probably for centuries. Joint ventures are entities with a legal existence separate from the entities that create it. Joint venturers usually each contribute to capitalize the company and participate in its direction and control towards shared strategic objectives. Examples of joint ventures include NUMMI (Toyota and General Motors), Verizon Wireless (Verizon Communications and Vodaphone) and Sony Ericsson (guess who).

Partnering in the payments industry usually does not involve creation of a separate legal entity, which is indicated by the more common description of these relationships, “strategic alliances”. Of course, there are always exceptions, as during the late 1990’s, when the lucrative lure of a potential IPO led to at least one payments joint venture involving my old employer and a major technology supplier, and I am sure there were many others. Plus, don’t let me forget the bank associations, which are true joint ventures and which helped suckle the diverse payments industry we make our living in. However, most alliances are not true joint ventures.

Turning to my topic, there are intellectual property tensions that exist in every alliance relationship that you must address even before contract negotiations in order to avoid nasty surprises later. Every business has intellectual property of some sort - patents, patentable inventions, copyrights, or at least trade secret know-how or information. Unless your intent is to contribute your intellectual property to a joint venture or alliance partner, you need to take special care to keep ownership of your intellectual property employed during execution of the objectives of the alliance in your hands, exclusively.

It is easy enough to say in a contract forming an alliance that each party continues to have sole ownership of the intellectual property that the party had before entering into the alliance agreement. The difficulty is that intellectual property is not immutable and evolves over time as it is enhanced and modified based on experience and business requirements. If those enhancements and modifications are based on activities and experience gained during the strategic alliance, or during brainstorming discussions in anticipation of a possible alliance, who owns them? These are issues that require careful and early attention.

I assume that you know to require a confidentiality agreement before having discussions with a potential alliance partner. However, do you understand the implications of

discussing your technology or know-how under a confidentiality agreement with a potential partner, or “brainstorming”, without clear guidelines or restrictions on those discussions? When bright people from potential alliance partners sit around a table or in front of a white board mapping out possible synergies between the capabilities of their companies, ideas result, some of which involve or will require enhancements or modifications to the intellectual property of one or both parties. If an idea for a modification to your intellectual property originates from the potential alliance partner, and there is no agreement in place allocating ownership in that event, you can anticipate discussing who owns what for weeks or months down the road. Further, if the idea involves a patentable invention, then, as a matter of patent law, you must list the contributor as a co-inventor on any subsequent patent application involving that invention.

A confidentiality agreement simply does not suffice in this situation. The only way to address this issue during pre-contract discussions is with process and restraint. Ideally, there should be no brainstorming, or if there must be, each party should sign in advance a release of any claims on ideas that result in enhancement or modification to the intellectual property of the other party (although this won't protect against the patent problem described above). Careful logs of discussions should be kept. These measures obviously will have a dampening effect on the willingness or ability to brainstorm freely, but in the long run both parties will be better off.

Unfortunately, matters may not get any easier once your alliance is formed and you start to put together the systems and processes that will support your alliance venture. If there is to be development of systems and software joining the talents and capabilities of the alliance partner and you in the common endeavor, the resulting deliverables may well contain elements of both parties' pre-existing intellectual property, and this can complicate efforts to define who owns what. Each situation varies, of course, but there are common complicating or ameliorating factors that are worth brief mention.

If your alliance partner will be doing the development for the project, as is often the case when development is the expertise of that partner, and the development utilizes your intellectual property, defining ownership rights in the resulting deliverable can be complicated due to the participation of the developer in the design process. Inevitably, during the design and development process changes to the original concept are created, and the developer will feel entitled to some rights in the changes if it had a part in creating them, particularly if they are novel or inventive. If those changes are core to your intellectual property, you may find yourself with less than total control of your destiny. Also, the developer will seek to protect its own intellectual property in pre-existing tools, subroutines and modules employed to expedite and minimize the cost of developing that deliverable, and as a result you may not have full ownership rights to the deliverable itself. If these conditions are possible the contract must address the issue directly, and sometimes the only solution is compromise. You may end up with enhancements to your intellectual property or a deliverable that will not be useable without a license from the developer to certain key elements. It won't be pretty, but it can work. You need to be aware of this possible outcome of a partnering relationship involving development, and

ensure that you have the right to approve any modifications or enhancements to your intellectual property before the developing partner makes them.

On the other hand, if each party performs its own development of deliverables involving modifications and enhancements to its own intellectual property, exclusive ownership is easier to accomplish, although the issue of origin of the idea for the modification or enhancement still exists if the parties' personnel are working closely together in scoping and defining the development required to support the objectives of the alliance. As in the case of pre-contract brainstorming, careful record-keeping and rules of engagement for joint discussions are essential to avoid later disagreement.

It has been my experience that intellectual property issues end up consuming the most time during alliance contract negotiations, and certainly create the most angst. If ever there was an area where an attorney experienced in these kinds of negotiations can help you find a path towards an agreement both parties can live with, this is it.