Joint Ownership of Patents, Copyrights and Trade Secrets in the United States

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Companies often form strategic alliances with the intent to collaborate on the research and development of a new product. When parties enter into a collaborative relationship, they will need to consider the ownership status of what is developed. Parties seeking to share equal rights to intellectual property may propose joint ownership of products developed in the course of collaboration. In other collaborative contexts, joint ownership may arise by default unless the parties stipulate to the contrary.

Although joint ownership of intellectual property may seem like a fair and simple solution, the parties' respective rights and obligations will vary depending on the form of intellectual property and many issues need to be considered before entering into a joint ownership agreement. If the parties fail to take these considerations into account, unanticipated consequences may arise. This outline will set forth some of the biggest legal barriers and consequences to joint ownership of patents, copyrights and trade secrets.

1. <u>Patents</u>

Under U.S. patent law, when there are joint inventors of a single invention, in the absence of an agreement to the contrary, each inventor is presumed to be a joint owner in the patent, having an "undivided equal partial interest in the invention as a whole."[1] Similarly, when companies collaboratively pursue research and development without delineating ownership, each company is presumptively a co-owner of the patent if: (i) at least one employee from the company is a co-inventor, and (ii) the employee previously assigned in writing to the company his future rights to inventions.[2]

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[1] *Ethicon v. U.S. Surgical Corp.*, 135 F.3d 1456, 1465-66 (Fed. Cir. 1998) (Newman J. dissenting); *see also* 35 U.S.C. § 116 (2008).

[2] *See, e.g.*, *Cadence Design Sys., Inc. v. Bhandari*, No. C 07000823, 2007 U.S. Dist. LEXIS 83078, at *12-14 (N.D. Cal. Nov. 8, 2007). Ownership is distinct from invention. A company can become a co-owner of a patent when an employee works on the invention that is the subject of the patent and a pre-existing agreement requires assignment to the employer of any invention developed by the employee (including, on the employee's own initiative during his non-work hours) that relates to the company's business, or is made using the company's facilities. In *Cadence*, an employee's entire interest in his jointly patented invention made with another collaborator, intended as a project independent of the company, was assigned to the company pursuant to an invention agreement. The agreement automatically transferred to the company interests in any employee inventions relating to the company's work or conceived during the course of employment. *Id*. at *12-14. While state law may impose restrictions on the types of inventions employers can require employees to transfer to the company, the court found that the employer's invention agreement was in compliance with provisions of the California Labor Code and that, even if the invention did not relate to the company's scope of work, the employee's use on a few occasions of the company's email and fax was cause for transfer of the patent. *Id*. at *15-23, 28-29.

Unless otherwise specified, each joint owner has the right to make, use, sell and exploit the patented invention, including the right to license the patented invention to third parties, without the consent and duty to account profits to the other joint owners.[3]

A. Special Problems that Arise in the Context of Joint Inventors

The starting point for analyzing ownership of patents often involves examining potential joint inventors as inventorship initially drives the ownership of patents. Identifying potential joint-inventors is crucial for patent validity, enforceability, and from protecting the patent from infringement. Incorrect inventorship on a patent application can be grounds to invalidate the patent,[4] and omitting an inventor can render a patent unenforceable.[5] Moreover, to bring a patent infringement action all inventors must be included as plaintiffs, and if a court finds that an inventor has been omitted he or she must join as a plaintiff for litigation to proceed.[6]

Joint inventors obtain ownership rights commensurate with every other joint inventor on the patent regardless of their contribution.[7] Parties may be considered joint inventors even if they did not 1) physically work together at the same time, (2) make the same type or amount of contribution, or (3) contribute to the subject matter of every claim of the patent.[8] Notably, a person may qualify as a joint-inventor if they make a single contribution to a single claim within a patent application.

Although the extent of each co-inventors' share of contributions to the patent is irrelevant,[9] to qualify as a joint inventor the putative co-inventor must contribute to the conception of the invention.[10] The test for conception is whether 1) the inventor has a specific settled idea, or a particular solution to the problem at hand that is definite and permanent enough

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[3] 35 U.S.C. § 262.

[4] 35 U.S.C. §102(f); *see also Jamesbury Corp. v. United States*, 518 F.2d 1384, 1395 (Ct. Cl. 1975) (inclusion of more or less than the true inventors renders patent void and invalid); *C.R. Bard, Inc. v. M3 Systems, Inc.,* 157 F.3d 1340, 1353 (Fed. Cir. 1998) ("To invalidate a patent based on incorrect inventorship it must be shown not only that the inventorship was incorrect, but that correction is unavailable under section 256").

[5] *Frank's Casing Crew & Rental Tools, Inc. v. Vincent*, 292 F. 3d 1363, 1376 (Fed. Cir. 2002).

[6] *Ethicon*, 135 F.3d at 1467 ("An action for infringement must join as plaintiffs all co-owners")

[7] 35 U.S.C. §262.

[8] 35 U.S.C. §116.

[9] If a patentable invention is made by one or more co-inventors, each co-inventor presumptively owns an undivided interest in the entire patent even if a particular co-inventor only contributed to the subject matter of only some of the claims of the patent. *Ethicon*, 135 F.3d at 1460.

[10] *See* 35 U.S.C. § 116; *see also Ethicon*, 135 F.3d at 1460.

that one skilled in the art could understand the invention, and 2) whether there is corroborating evidence to support the conception.[11]

Under the first prong of this test, an individual who contributed to a general goal or research plan would not qualify as a joint inventor if the idea was in constant flux or not developed to the point where the joint inventor could describe the invention with particularity.[12] Individuals do not qualify as inventors if they provide services to reduce the conception to practice without having a definite idea of what the complete invention is or if they provide assistance in the aftermath of the invention.[13]

The most compelling evidence of conception comes from contemporaneous disclosure in writing and documentation describing the circumstances surrounding the invention's conception.[14] However, circumstantial evidence[15] or oral testimony from someone other than the putative co-inventor can satisfy the corroboration requirement.[16] While the named inventors on a patent are presumed to be the sole and true inventors,[17] this presumption is rebuttable through clear and convincing evidence.[18] As a result, it may be useful to draft a written agreement demarcating the interests and assignments of each co-inventor as well as define the subject matter of joint ownership. If two parties have collaborated on the concept of an invention and joint ownership is not desired, then an agreement between the parties should specify which

[11] *Burroughs Wellcome Co. v. Barr Labs, Inc.*, 40 F.3d 1223, 1228-30 (Fed. Cir. 1994).

[12] *See id*. at 1228-29. The issue in *Burroughs Wellcome* was whether three scientists at the National Institute of Health (NIH) became joint inventors of a patent with employees of Burroughs Wellcome when they tested compounds received from the company. Although the Burroughs Wellcome inventors initially set out with a general goal of discovering a treatment for AIDS, the court found that they had narrowed the general plan to a clear and particular idea such that one skilled in the art could practice the invention. *Id*. at 1230. The conception occurred prior to receipt of the compounds by the NIH scientists, whose testing was merely a part of the reduction to practice of the invention, and not a contribution entitling them to joint ownership. *Id*.

[13] *See Hess v. Advanced Cardiovascular Sys., Inc.*, 106 F.3d 976, 981 (Fed. Cir. 1997) (stating "'an inventor may use the services, ideas, and aid of others in the process of perfecting his invention without losing his right to a patent.'") (quoting *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 624 (Fed. Cir. 1985)).

[14] *See Sandt Tech., Ltd. v. Resco Metal & Plastics Corp.,* 264 F.3d 1344, 1094 (Fed. Cir. 2001) ("Documentary or physical evidence that is made contemporaneously with the inventive process provides the most reliable proof that the inventor's testimony has been corroborated.").

[15] *See Knorr v. Pearson*, 671 F.2d 1368, 1373 (C.C.P.A. 1982) ("[S]ufficient circumstantial evidence of an independent nature can satisfy the corroboration rule.")

[16] *Price v. Symsek*, 988 F.2d 1187, 1195 (Fed. Cir. 1993).

[17] 35 U.S.C. § 116 (2008).

[18] *Checkpoint Sys., Inc. v. All-Tag Sec. S.A.*, 412 F.3d 1331, 1338-40 (Fed. Cir. 2005) (requiring claims of co-inventorship by unnamed inventors to be corroborated by physical, documentary or circumstantial evidence or testimony from individuals other than the alleged inventors); *see also* 35 U.S.C. § 256 (stating a patent may be corrected if there is proof that a named inventor was incorrectly listed or a true inventor was not named).

collaborator will be the exclusive owner of the patent,[19] and should include assignments by the non-owners to the intended owner.[20]

B. Jointly Held Patent Rights and Licensing

While each co-owner can make, use, sell, license and exploit the patented invention, no co-owner can grant an exclusive license[21] without the consent of the other co-owners.[22] This rule is best illustrated in the seminal case *Ethicon v.United States Surgical Corporation.* In *Ethicon*, a collaborator on a joint research project, Dr. Yoon, filed for a patent and named himself as the sole inventor without giving notice to the second inventor, Dr. Choi.[23] Dr. Yoon granted an exclusive license to Ethicon, and Ethicon, as an exclusive licensee of the only named inventor, filed an infringement action against an infringer.[24]

After the suit was filed, the infringer discovered that Dr. Choi was an unnamed inventor and obtained a retroactive license from him.[25] By granting this license, Dr. Choi exerted his undivided interest in the patent, the practical effect of which was to destroy Ethicon's exclusive license. Since the defendant had a license from one co-owner, the other co-owner of the patent had no claim of infringement, and the case was dismissed.[26]

One implication of the *Ethicon* decision is that owner's of patent must confirm the status of any potential co-owners, and if required obtain consent from each of them, before granting an exclusive license to a third party even if there is no agreement to the contrary. Another unintended consequence of joint ownership highlighted by the *Ethicon* decision, is that one co-owner may be at the mercy of the other due to unlimited licensing rights.

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[19] Alternatively, if two parties have collaborated on the concept of an invention and joint ownership is preferred, the parties may state the legal presumption of co-inventorship in a contract between them.

[20] Under patent law, assignments must be in writing. 35 U.S.C. 261 (2008). Assignments may be recorded, and if a party is relying upon an assignment for joint ownership purposes, the party should record the assignment because an unrecorded assignment is valid as between the two parties, but will be void against a subsequent transferee who takes an assignment in good faith for valuable consideration without notice of the prior assignment. *Id.*

[21] Once granted, an exclusive license also prohibits the grantee, as well as any of its subsidiary companies, from practicing the patent. *See Moore v. Marsh*, 74 U.S. (7 Wall) 515, 522 (1868) (stating that the assignee takes the place of the patentee).

[22] *Ethicon*, 135 F.3d at 1465-66; *see also* 35 U.S.C. § 116.

[23] *Ethicon*, 135 F.3d at 1459.

[24] *Id*.

[25] *Id*. (noting that by motion of the court, Dr. Choi was subsequently added as a second inventor to the patent).

[26] Although the court held that the retroactive license did not extinguish past infringements, since Choi refused to join in the suit, Ethicon had no remedy for past infringements, and that portion of the case was dismissed as well. *Ethicon*, 135 F.3d at 1467

C. The Effect of Joint Ownership on Patent Infringement Suits

A patent infringement suit is not valid unless all the co-owners of the patent join as plaintiffs. [27] An exception to the rule occurs when a co-owner of a patent has contractually waived his right to consent, in which case the court may force the co-owner to join the suit as an involuntary plaintiff.[28] However, to have an effective waiver agreement, the contract should explicitly prevent the waiving party from licensing to potential third party infringers. Otherwise, when a suit arises, the waiving party may grant a license to a putative infringer which would prevent the other co-owner from bringing a patent infringement suit.[29] Thus, without an explicit provision, a waiver could be circumvented through a licensing agreement.

For instance, in *Schering Corp.*, two co-owners had entered into an agreement permitting either co-owner to unilaterally bring a lawsuit against an infringer, provided that the non-suing co-owner would offer "reasonable assistance" in the lawsuit.[30] The court interpreted "reasonable assistance" to mean litigation assistance only, making it permissible for the non-suing co-owner to grant a license to the infringing defendant, without the consent of the co-owner bringing the infringement lawsuit.[31] The court's interpretation made it possible for one co-owner to grant a non-exclusive license to the infringer thereby effectively preventing the other co-owner from bringing a suit for infringement against the infringer.[32]

This decision indicates that a contractual agreement authorizing a unilateral right to sue should also include a provision that restricts one co-owner from entering into licensing negotiations or settlement discussions with a third party infringer without the other co-owner's

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[27] *Id*.

[28] *Id* at 1467, 1468 n.2. Co-owners who consent to waive litigation rights may be considered involuntary plaintiffs under Federal Rule of Civil Procedure 19(a), which requires joinder of a party that claims an interest relating to the subject of the action. *See Willingham v. Lawton*, 555 F.2d 1340, 1345-46 (6th Cir. 1977); *see also* Fed. R. Civ. P. 19(a). This rule protects the ability of each co-owner to license to third parties without fear of suit by the remaining joint owners and prevents the estoppel effect of a judgment declaring a patent invalid. *Willingham*, 555 F.2d at 1341.

[29] *See Schering Corp. v. Roussel-UCLAF SA*, 104 F.3d 341, 345-47 (Fed. Cir. 1997).

[30] *Id.*

[31] *Id.* at 346.

[32] More particularly, Schering and Roussel were joint owners of a patent governed by a written agreement providing each party with a unilateral right to initiate suit against third party infringers and requiring the parties to provide "reasonable assistance" to one another in the event of litigation. *Id.* at 342-43. Schering contacted Roussel to obtain exclusive rights under the patent, and unknown to Schering, Roussel was actively negotiating a license agreement with the company Zeneca. *Id*. at 343, 346. After Schering discovered that Zeneca was marketing a drug that required a license for the jointly held patent, Schering filed an action against Zeneca for infringement. Although Roussel was the party negotiating a license agreement with Zeneca, pursuant to the co-ownership agreement, Roussel was joined as an involuntary plaintiff. The court held that a co-owner's unilateral right to sue is not incompatible with another co-owner's right to license or provide "reasonable assistance," although it recognized the detriment to a lawsuit if the defendant raised a valid license agreement as a defense. *Id*. at 344. In the end, Roussel's refusal to join the action as a plaintiff would prevent Schering from seeking relief against Zeneca. *Id. at.* 345.

consent. Parties might not agree to such a provision because it may leave decisions regarding litigation and settlement entirely in the hands of one co-owner. Such a provision, however, will prevent a co-owner from thwarting litigation while entering into a licensing agreement with a third party infringer without having any duty to account profits.

D. Divorce

Upon divorce and without a private marital agreement to the contrary, states with community property laws might award co-ownership rights of a patent created during marriage, and apportion its profits to a patent owner's spouse.[33] However, preventative measures in writing can negate the consequences of a divorce in a common law jurisdictions.

E. Agreements

Co-owners are generally free to change their respective rights by written agreement.[34] However, such agreements may not be binding upon third parties unless the third party has prior notice of the agreement.

Under the Patent Act, notice is properly given for assignments, grants or conveyances if they are recorded in the U.S. Patent Trademark Office (PTO) within three months from the agreement or prior to the date of a subsequent assignment.[35] In this respect, recordation of an assignment of a joint interest may provide constructive notice. However, one court has found that the recording with the PTO of a contract between co-owners did not provide actual or constructive notice to a subsequent assignee.[36]

2. Copyrights

A. Origin and Establishment of Jointly Held Copyright Rights

A copyright comes into existence the moment an idea is fixed into tangible medium of expression and initially vests in those who conceive of, translate, and fix the idea.[37] Hence, two

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[33] *See, e.g.*, *Alsenz v. Alsenz*, 101 S.W.3d 648, 653-54 (Tex. App. 2003) (dividing between a divorced couple $706,730.56 in royalties received from husband's patented devices assigned to a company before the couple married, and recognizing the patents themselves would have become community property had they been issued during the marriage).

[34] *See IBM Corp. v. Conner Peripherals Inc.,* 30 U.S.P.Q.2d (BNA) 1315, 1319-20 (N.D. Cal. 1954).

[35] 35 U.S.C § 261 ("An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.").

[36] *See Talbot v. Quaker State Oil Refining Co.*, 28 F. Supp. 544, 548 (W.D. Pa. 1938), *aff'd*, 104 F.2d 967 (3d Cir. 1939) (ruling that the recording with the PTO of a contract between co-owners of a patent that stated that neither could sell his interest without the consent of the other party was void because it did not provide actual or constructive notice to a subsequent assignee, and therefore, the assignee could not be held as an infringer).

[37] Community for Creative Non-Violence v. Reid, 490 U.S. 730, 737 (1989).

or more individuals can share an equal undivided interest in a copyrighted work without an explicit agreement provided they satisfy the conditions of joint authorship.[38]

Joint authorship should not be confused with ownership of a derivative work which occurs when copyrightable expression is incorporated into another person's solely authored, and thus exclusively owned, work assuming he or she lawfully used the pre-existing material.[39] Instead, for a joint work to exist, two or more individuals must have intended their contributions to be merged into "inseparable or independent parts of a unitary whole" at the time of creation.[40] Thus, joint works are distinguished based on the intent of the participants. Joint works should also not be confused with collective works in which contributors only intend to compile their individual efforts into a collection without sacrificing each separate piece's independent character. In the case of collective works, merger is lacking since it involves the assemblage of "separate and independent works into a collective whole."[41]

In the context of commissioned work that does not meet the definition of "works made for hire," the work may be deemed to have multiple authors for copyright purposes given the collaborative nature of such arrangements.[42] In this scenario, parties that do not intend to be joint authors must be careful not to make contributions that courts might interpret as giving rise to joint-authorship. Conversely, in the absence of an express agreement, parties that intend to be joint authors must make creative contributions that rise to the level of joint authorship.

Courts disagree as to what amount of contribution rises to the level of joint authorship. There are two main competing tests and variations thereof for assessing putative co-authors: the "de minimis" test and the more restrictive "copyrightability subject matter test." The late professor Nimmer espoused the "de minimis" test which requires that a joint author's contribution be more than a de minimis rather than independently copyrightable expression.[43] Hence, under the de minimis test, a party that contributes abstract ideas and information, which is not copyrightable expression, may constitute a joint author.[44] Alternatively, professor

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[38] 17 U.S.C. § 201(a) (2008) (stating that authors of a joint work are co-owners of copyright in the work).

[39] *See Weissman v. Freedman*, 868 F.2d 1313, 1318 (2d Cir. 1989); *see also* 17 U.S.C. § 103 (noting the copyright protection afforded to derivative works by § 102 of the Copyright Act extends only to material used lawfully, and does not "affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material").

[40] 17 U.S.C. § 101 (defining joint work). See also H.R. Rep. No. 94-1476, at 21, *reprinted in* 1976 U.S.C.C.A.N 5659 ("The touchstone here is the intention. . .that the parts be absorbed or combined into an integrated unit, although the parts themselves may be 'inseparable' (as the case of a novel or painting) or 'interdependent' (as in the case of a motion picture, opera, or the words and music of the song").

[41] 17 U.S.C. § 101 (defining collective work).

[42] *See Community for Creative Non-violence v. Reid,* 490 U.S. 730, 743-44 (1989) (noting that multiple authorship disputes were often litigated under the work for hire doctrine before the implied conveyance theory was rejected).

[43] MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §§ 6.03, 6.08 (2000).

[44] NIMMER & NIMMER, §6.07

Goldstein has proposed a test more favorably received by courts which requires each author to make a contribution that would be independently copyrightable.[45] This test draws support from the notion that authorship always requires creation of *original* expression as distinct from mere *ideas*. Hence, under Goldstein's test, a collaborator who only contributes ideas or facts cannot receive authorship status.

The Second, Seventh and Ninth Circuits utilize Goldstein's "copyrightability subject matter test" for assessing putative co-authors. These Circuits require a joint authorship claimant to prove 1) the authors intended to create a unitary whole while regarding themselves to be joint authors of the resulting work; and 2) that each author's contribution was copyrightable subject matter.[46] The first prong of this test adds dimension to the intent requirement by focusing not on the contemporaneous intent of putative co-authors to merge their contributions, but on their intent to establish a co-authorial relationship.[47]

While the Ninth Circuit has endorsed Goldstein's test and the views of the Seventh and Ninth Circuit, it has formulated its own more stringent method to joint work analysis. In addition to the intent and independent copyrightability factors, the Ninth Circuit, unlike the Second and Seventh Circuits, considers whether the claimant seeking to prove authorship displayed control over the creation of the work,[48] and imposes a more exacting originality requirement. Under the Ninth Circuit's narrow interpretation of joint authorship, there is a presumption that authorship status is reserved for the "mastermind" behind the work which can only be overcome by a substantial creative contribution.[49]

An exception to the rule requiring joint authors' contributions to be independently copyrightable expression was adopted by the Seventh Circuit in order to accommodate situations where the creative process of a mixed media, such as a film, would preclude each joint author from claiming an independent copyrightable contribution to the work.[50] In creating the

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[45] PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW, & PRACTICE § 4.2.1.2 (1989).

[46] *See Erickson v. Trinity Theatre, Inc.*, 13 F.3d 1061, 1068 (7th Cir. 1994) (finding that defendant theater company did not establish joint authorship of certain plays because the actors were unable to identify specific contributions to satisfy the independently copyrightable requirement; further, that mere ideas, refinements and suggestions are not the subjects of copyrights); *see also Childress v. Taylor*, 945 F.2d 500, 506-08 (2d Cir. 1991); *Aalmuhammed v. Lee,* 202 F.3d 1227, 1231-34 (9th Cir. 2000).

[47] *See e.g. Weissman v. Freeman*, 868 F.2d 1313, 1319-20 (1989) (focusing on co-creator's intent to regard herself as the sole author and not on contemporaneous intent to merge contributions).

[48] *See Aalmuhammed,* 202 F.3d. at 1233-34 (emphasizing the factor of control in addition to the requirements for mutual intent and independently copyrightable contributions). Plaintiff in *Aalmuhammed* claimed that he was a co-owner of the copyright in a film despite the absence of a written agreement to this effect. *Id*. at 1230. The court was unconvinced by the facts in the record that plaintiff had exerted enough control to become a joint author and emphasized that control of a work is strong evidence of co-authorship. *Id*.

[49] *Aalmuhammed,* 202 F.3d at 1235.

[50] *See Gaiman v. McFarlane*, 360 F.3d 644, 658-59 (7th Cir. 2004); *accord Gordon v. Lee*, No. 1:05-CV-2162-JFK, 2007 U.S. Dist. LEXIS 35361, at *26 (N.D. Ga. May 14, 2007) (adopting the Seventh Circuit's reasoning and determining that two individuals were joint collaborators because they worked together to produce residential designs and the designs were dependant upon their individual efforts).

exception, the Seventh Circuit applied the minority view advocated by Professor Nimmer to justify the claim that joint authorship requires an independently copyrightable element.[51] Courts not within the Second, Seventh and Ninth Circuits are within their discretion to choose which standard of authorship is most appropriate,[52] and as indicated by the Seventh Circuit in *Gaiman*, it may be possible to persuade a court that certain mediums of copyrighted material necessitate an exception.

If joint ownership of a copyright is desired, it is best achieved by declaring this intention in a written agreement and specifying the degree of control exerted by each author. In the event of litigation, this provides the court with a clear and objective manifestation of the parties' intentions, as required by the Ninth Circuit.[53] Defining the copyrightable subject matter in a written agreement may also help parties seeking to be joint owners comply with courts that require each parties contribution to be independently copyrightable. In addition, a party can stipulate that the final expression relies on integrated joint efforts of the collaborators which cannot be separated into independent contributions.[54] If joint ownership has not been declared in a written agreement, parties may always ratify a prior oral understanding writing.[55]

B. Effect of Jointly Held Copyright Rights

Absent an express agreement, co-owners have independent rights to copy, distribute, prepare derivative works, display the work, to perform the work publicly depending on the copyrighted medium, and grant non-exclusive licenses without seeking permission of the other joint owners.[56] However, a co-owner of a copyright cannot grant an exclusive license to a third party unless all the co-owners consent to such an arrangement.[57] Unlike patents, a joint owner of

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[51] *See* 1-6 Nimmer on Copyright § 6.07 (A)(3)(a) (2008).

[52] *See, e.g.*, *Berman v. Johnson*, 518 F. Supp. 2d 791, 797 (E.D. Va. 2007) (criticizing the Ninth Circuit's emphasis on control as susceptible to manipulation). The *Berman* court found more persuasive the Seventh and Second Circuit tests, which omit the factor of control, on the grounds that a strict application of the Ninth Circuit's rule would lead to an inequitable result where plaintiff was wrongfully prevented from exercising authorized control over a film production. *Id*.

[53] *See Aalmuhammed,* 202 F.3d at 1235.

[54] *See Gaiman*, 360 F.3d at 658-59.

[55] *See Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 36 (2d Cir. 1982) (remanding on the issues of whether Eden Toys was operating on an informal understanding that it had an exclusive license to sell Paddington Bear products in the same market as the alleged infringer, and whether this was reduced to writing; if so, declaring that as the exclusive licensee of the copyright Eden would have standing to sue the infringer without joining the copyright's owner).

[56] 17 U.S.C. § 106 (stating a copyright owner's exclusive rights). *Erickson*, 13 F.3d at 1068. In the case of sound recordings, the rights may be more limited. 17 U.S.C § 106 (sound recording exclude the right to perform except by digital transmissions); *see also* 17 U.S.C §114 (providing rights to sound recordings).

[57] In *Sybersound Records, Inc. v. UAV Corp.*, 517 F.3d 1137 (9th Cir. 2008), plaintiff Sybersound, a seller of karaoke records, sued several competitor companies that it believed were infringing on its "exclusive license" to use certain songs for karaoke use. The court found that Sybersound was actually a non-exclusive licensee because the

a copyright (or its transferee[58]) has a duty to account profits,[59] However, the duty to account has been found to be enforceable only against the co-owner and not against any licensees.[60]

Further, unlike patents, a copyright co-owner can bring a copyright infringement suit against a third party without the consent of the co-owners. Co-owners may not prevent litigation initiated by another owner by refusing to join the action, as courts may require the joinder of the co-owner under the Copyright Act.[61] Regardless, parties may wish to take precautions by allocating in writing whether a party has a unilateral right to sue or needs consent to initiate a lawsuit. A provision in the agreement should also require consent from all co-owners to undergo license negotiations or settlement discussions with a third party infringer once a lawsuit arises.

C. Divorce

Similar to patents, upon divorce, states with community property laws might award co-ownership rights of a patent created during marriage, and apportion its profits to a patent owner's spouse. [62] However, parties may take preventative measures in a contractual agreement to negate the consequences of a divorce in a common law jurisdictions.

D. Agreements

Because a copyright comes into existence the moment the work is created, multiple authors of a joint work are automatically considered co-owners regardless of whether the copyright is registered in the Copyright Office or recorded in a written agreement.[63] However, copyright registration is a pre-condition for an infringement lawsuit.[64]

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co-owner of the copyright that granted it an exclusive license did so without the consent of the other co-owners and therefore, as a non-exclusive licensee, Sybersound did not have standing to sue for infringement. *Id*. at 1142-46.

[58] A transferee who retains an interest in a joint work is also bound by the duty to account and share profits with the remaining co-owners. *See* 17 U.S.C. § 201(d); *Erickson*, 13 F.3d at 1068. Since this is the case, the original co-owner or transferor does not have a duty to account to his co-owners for any profits that he/she realizes upon the actual transfer of the ownership interest because the original co-owner ceases to be a joint owner *See* 1-6 Nimmer on Copyright § 6.12(C) (2008). Under the Copyright Act, a "transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S.C. § 204(a).

[59] *Erickson*, 13 F.3d at 1068; *see also Goodman v. Lee*, 78 F.3d 1007, 1012 (5th Cir. 1996).

[60] *See Ashton-Tate Corp. v. Ross*, 916 F.2d 516, 522-23 (9th Cir. 1990).

[61] 17 U.S.C. § 501(b).

[62] *See e.g.*, *Rodrigue v. Rodrigue,* 218 F.3d 432, 443 (5th Cir. 2000) (recognizing a divorced wife's right to "an undivided one-half interest in the net economic benefits generated by or resulting from copyrighted works created by her husband during their marriage and from any derivatives thereof").

[63] 17 U.S.C. § 201(a) (authors of a joint work are co-owners); *see also id*. § 408(a) ("registration is not a condition of copyright protection"); *Morgan, Inc. v. White Rock Distilleries, Inc.*, 230 F. Supp. 2d 104, 107 (D. Me. 2002) (recognizing that the Copyright Act makes clear that copyright exists in all works of authorship regardless of whether the copyright for such work is registered).

As with patents, co-owners of copyrights are generally free to change their respective rights by written agreement. Thus, an agreement effectively restricting a co-owner from entering into a licensing agreement without the other co-owner's consent will be considered binding.[65]

If a co-owner wishes to record a transfer or license to a third party, the Copyright Act explicitly permits, but does not require, recording a "transfer of copyright ownership or other document pertaining to a copyright" in the Copyright Office.[66] The Copyright Act also establishes that, subject to certain requirements, "recordation of a document in the Copyright Office gives all persons constructive notice of the facts stated in the recorded document."[67] Professor Nimmer has also suggested that recordation may serve as actual notice to a licensee conducting a title search.[68]

If a co-owner makes a transfer to a third party, that co-owner has one or two months to record the transfer in the Copyright Office.[69] During that time period, there is a possibility that a second co-owner will also engage in a transfer, without the second co-owner's transferee having constructive notice of the other co-owner's prior transfer. In this situation, the prior transfer might still prevail.[70] For a transferee, the best way to prevent this scenario is to provide that the consideration to be paid for the assignment will not pass until two months after the execution.[71]

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[64] 17 U.S.C. § 411(a) (stating that no action for infringement of the copyright in any United States work may be instituted until pre-registration or registration of the copyright claim is made in accordance with the Copyright Act).

[65] *See, e.g.*, *Meredith v. Smith*, 145 F.2d 620, 621 (9th Cir. 1944); *Clifford Ross Co. v. Nelvana*, 710 F. Supp 517, 520 (S.D.N.Y. 1989), *aff'd*, 883 F.2d 1022 (2d Cir. 1989) (enforcing a contract which stated that neither party could authorize a license without the approval of the other).

[66] 17 U.S.C. § 205(a) (transfer of copyright ownership . . . *may* be recorded in the Copyright Office) (emphasis added).

[67] *Id*. § 205(c). The requirements are that 1) the document and any material attached thereto specifically identify the work to ensure its disclosure by a reasonable search under the work's title or registration number, and 2) the work is registered. *Id*. at § 205(c)(1)-(2).

[68] See 1-6 Nimmer on Copyright § 6.10(C).

[69] *Id*. § 205(d).

[70] *Id*. (discussing priority between conflicting transfers and stating the transfer executed first will prevail if 1) constructive notice was provided as required by Section 205(c), and 2) the first transfer was recorded within one month after its execution if in the United States, within two months if executed abroad, or at any time in such manner before the later transfer); *see also* 3-10 Nimmer on Copyright § 10.07(A)(1)(b)(2) (2008) (same). In the event that the prior transfer is not recorded within the required grace period, the later transfer will prevail if recorded first in such manner and if the transferee is without notice of the first transfer. 17 U.S.C. § 205(d).

[71] *See* 3-10 Nimmer on Copyright § 10.07(A)(1)(a).

3. Trade Secrets

A. Origin and Establishment of Jointly Held Trade Secret Rights

The defining characteristic of a trade secret[72] is that access to the information is restricted and protected. In the context of joint ownership, the parties should have an understanding of how sharing the secret will diminish its underlying value.

B. Effect of Jointly Held Trade Secret Rights

Case law suggests that co-owners of a trade secret are entitled to use it for their individual business purposes.[73] For example, in *B.F. Gladding*, the court held that jointly developed trade secrets between two companies were intended to be enjoyed by both companies and that neither party was entitled to have exclusive control.[74] Moreover, there is no legislative mandate requiring a duty to account and share profits, although some courts have found support for this from other authorities, such as the Restatements of Torts and Agency.[75]

Joint owners have the right to sue for misappropriation of a trade secret without informing or joining the other co-owners.[76] In fact, while the traditional requirement is that one must actually own a trade secret in order to have standing to bring a claim for misappropriation, in 2001, the Fourth Circuit held that the minimum requirement to sustain a cause of action under the Maryland Uniform Trade Secrets Act would be *possession* of a trade secret, not ownership or right to title.[77]

If the suit is between co-owners, evidence will be required to show the existence of a jointly owned trade secret.[78] If there is no express duty to protect the trade secret and the

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[72] The Uniform Trade Secret Act defines a "trade secret" as "information, including a formula, pattern, compilation, program, device, method, technique or process" to which all of the following apply: (1) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) the information is the subject of efforts to maintain its secrecy that are reasonable under the circumstances. *See* Unif. Trade Secrets Act § 1(4) (1985).

[73] B. F. Gladding & Co., Inc. v. Scientific Anglers, Inc., 245 F.2d 722, 729 (6th Cir. 1957).

[74] *Id*. at 729.

[75] *See generally Hahn & Clay v. A.O. Smith Corp.*, 320 F.2d 166, 170 & n.11 (5th Cir. 1963) (citing to the Restatement (Second) of Agency § 396 (1958) for the proposition that an agent has a duty to account for profits earned from use of trade secrets and to the Restatement of Torts § 757 (1939) for the notion that liability should be incurred by one who impermissibly discloses another's trade secret if doing so constitutes a breach of confidence).

[76] *DTM Research, L.L.C. v. AT&T Corp.*, 245 F.3d 327, 331-32 (4th Cir. 2001).

[77] *Id*. B*ut see Memry Corp. v. Kentucky Oil Tech., N.V.*, No. C-04-03843, 2006 U.S. Dist. LEXIS 94393, at *10, *28 (N.D. Cal. Dec. 18, 2006) (commenting that the Fourth Circuit is the only circuit to have directly addressed the issue, and that under the California Uniform Trade Secrets Act, it is unclear whether ownership of a trade secret is *necessary* to establish standing, although it is certainly sufficient).

defendant co-owner disclosed it, he might raise the defense that the other co-owners also failed to take reasonable efforts to protect its secrecy, thus invalidating the claim to a trade secret.[79]

C. Agreements

As with patents and copyrights, co-owners are free to establish or change their respective rights to jointly owned trade secrets by written agreement.

Issues to consider when drafting an agreement regarding trade secrets include:

- That the parties have a duty to protect the trade secret from disclosure;
- If the parties will each have reasonable and specific procedures in place to protect the secrecy of the trade secret;
- Whether the co-owners have rights to license trade secrets, and if so, whether consent of all the joint owners is necessary to permit the license and the sharing of the information with another party;
- Whether there is a duty to account to the co-owners for profits derived from the trade secret;
- What rights and duties are extended to licensees of the trade secret; and
- What obligations should there be on one co-owner of a trade secret to join in a lawsuit brought by another co-owner or take any action that might prevent one co-owner from bringing the lawsuit. Note, however, that with trade secrets, if one co-owner is not permitted to disclose the information without the consent of the other co-owner, this should prevent a single co-owner from licensing the trade secret as part of a separate settlement negotiation without the other co-owner.

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[78] *See Memry Corp.*, 2006 U.S. Dist. LEXIS 94393, at *10, *28 (noting that under California state law a party bringing a claim for misappropriation must either establish the existence of the trade secret or the uninterrupted contractual chain of title by which it was acquired).

[79] *See DTM Research*, 245 F.3d at 332-33.

4. <u>Conclusion</u>

GENERAL RULES:

	Patents	**Copyrights**	**Trade Secrets**
1. Make, Use, Sell or Exploit Without the Consent of a Co-Owner	YES	YES	YES
2. Grant a Non-Exclusive License Without the Consent of a Co-Owner	YES	YES	YES
3. Grant an Exclusive License Without the Consent of a Co-Owner	NO	NO	NO
4. Duty to Account any Profits to a Co-Owner	NO	YES – While a co-owner of a patent, in the absence of a written agreement, is free to use and license the patent without any regard to the other co-owner, a co-owner of a copyright is economically tied to another co-owner under common law unless there is an agreement to the contrary.	MAYBE – No legislative mandate but some courts have found authority for it in the Restatement of Torts and Agency
5. All Co-Owners Must Consent to Join as Plaintiffs in an Infringement Suit Against a Third Party	YES - In fact, unless there is any specific obligation for one party to join the lawsuit of another party in a written agreement, case law shows that one co-owner can block a lawsuit brought by another co-owner by itself granting a license to the third party that is the subject of the lawsuit by the other co-owner.	NO – a co-owner of a copyright cannot prevent the other co-owner from suing for infringement by refusing to join the lawsuit, and instead, the court may require the joining of the co-owner. Also, unless there is an agreement to the contrary, there is a general duty to account to the other co-owner any profits from any such licensing arrangement.	NO
6. Co-Owners Can Contract Around These Rules	YES	YES	YES
7. Will a Written License or Assignment Agreement be Enforceable Against a Third Party	MAYBE – it will likely be enforceable against a third party with actual notice. You can file the agreement with the patent office and this may suffice as constructive notice if done in a timely manner.	MAYBE – it will likely be enforceable against a third party with actual notice. You can file the agreement with the copyright office and this may suffice as constructive notice if done in a timely manner.	MAYBE

WHAT HAVE WE LEARNED?

Patents –

- There is NO DUTY to account profits
- If one co-owner brings a lawsuit, this co-owner must require the other co-owner not just to provide "reasonable assistance," but to explicitly waive its right to consent in order to have to join the lawsuit and, as an extra precaution, should state that this other co-owner cannot enter into a licensing arrangement or settlement discussions with any third party defendant that the first co-owner has sued as an infringer.

Copyrights –

- Unless there is a written agreement stating otherwise, there IS A DUTY to account profits
- If one co-owner brings a lawsuit, the other co-owner can be joined as a plaintiff.

Patents and Copyrights –

- No right to grant exclusive license without the consent of the other co-owners. As a result, due diligence, strong representations and warranties regarding title and right to grant exclusive rights, indemnification obligations for breach of these representations and warranties and no limitation on the party's liabilities regarding a breach of the same is important when obtaining an exclusive license because an exclusive license without the consent of a co-owner is really a non-exclusive license.
- Parties can change rights via contract and it is good to have a well written agreement that addresses the rights of the co-owners.