Written by
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Securing IP ownership is a key VC goal

There are many reasons why VCs should seek to ensure that a company in which they invest owns the IP that underpins its business case. If the rights remain in the hands of the company's founders, on the other hand, there is potential for serious trouble further down the line

Often, there is some conflict of interest between founders and investors concerning the ownership of intellectual property in a company. This is particularly the case when it comes to ownership of the patents.

Founders often want to be the owners of the intellectual property necessary to run the company. There are several reasons for this, many of which are tied up in the fact that the founders are proud of their inventions; and others that relate to the feeling that the owner of a patent has some kind of powerful position. Also, were insolvency to become an issue, if they retained ownership the founders might be able to keep the intellectual property in their hands and start a new business based on this, even though the old business had failed.

Investors, on the other hand, like to increase the value of the companies in which they invest. And part of the value, of course, depends on the assets that the company owns - of which intellectual property is a part. In an increasing number of cases, the intellectual property is, in fact, considered to constitute the lion's share of a company's value. In such situations, an investor would like to see these jewels in the hands of the company and not in the hands of the founders. Also, in case of insolvency, the patents can be sold and nobody can start a new business without any arrangement concerning the patents. Thus, having the patents within the company reduces the risk of an investment. Licences, even exclusive licences, are not sufficient for this.

In the VC community these are all good and established reasons for wanting to ensure that a company, rather than its founders, owns the intellectual property rights the company needs to operate. But apart from these, there is another, more operational motive for securing ownership, which can become extremely important.

Operational imperatives

Consider the following situation. Two founders, person A and person B, start a business together. They make some breakthroughs that lead onto inventions; these are then patented worldwide. The patents are co-owned by the two founders and not by the company – not an unusual scenario. Some years later, A and B become embroiled in a dispute: B continues with the business; A is not interested and not available anymore. To run the business properly, person B must be able to sue third parties for patent infringement based on the co-owned patents.

In this situation, we are confronted with the following legal question: can person B sue a third party for patent infringement based on the co-owned patents without the consent and without the signature of person A? Fortunately, the answer is yes for many relevant countries, among which are: Canada, China, France, Germany, Italy, Japan, Korea, Netherlands, Singapore, Spain and the United Kingdom.

However, when it comes to the United States, the answer is no. And if B were to transfer his share of the patents to his company, the situation would remain unchanged. Then it would be the company that could sue in many countries, except the US.

What a horrible situation: the company would basically be without patents for what is its most important market: the one in the US. A fact of life, after all, for so many technology-based businesses, wherever in the world they are located. If B cannot sue on his own, he cannot enforce the monopoly situation provided for by the patent.

A group of founders can always fall into dispute. I would even say that this is more likely than unlikely. Therefore, it is also in the interest of the founders to have all IP in the hands of the company. In cases of dispute, some of the founders will probably resign while others will stay on. Those resigning might receive money or might keep their shares in the company and receive dividends, further shares, or a portion of the ongoing profit. In any event, the company will continue to operate and, to do so with confidence, it will have to ensure it has full ownership of the IP it needs.

Insist on clarity

So, what do we have to do in order to have the IP definitely in the hands of the company? We have to straighten out these issues in suitable IP clauses in the participation agreement. The most pertinent of these would be:

- The founders/shareholders transfer all IP to the company – a list should be attached to the agreement. IP consists of know-how, patents, patent applications, trademarks, designs, copyrights, software, etc – anything that is relevant to the proper functioning of the business.
- The founders should guarantee the completeness of the list of IP.
- Future inventions and other IP are, or will be, transferred to the company – as far as possible, as long as they are relevant for the business. For the CEO and CTO, this happens without any recompense.
- The founders/shareholders as natural persons do not have any right to use the inventions.
- In case the founders/shareholders as natural persons still have some rights to use the inventions, these rights are transferred to the company without any recompense.
- The founders/shareholders will perform any act necessary for the transfer.
- The company has the right to grant licences and not the founders/shareholders.
- Any damage claimed in an IP lawsuit goes to the company, not the founders.
- Only the company has the right to sue third parties based on the IP.

Your lawyer knows how to put such clauses, written using the appropriate legal terminology, in the contract. Make sure that he or she does just that.

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