

## Intellectual Property Ownership: when you don't know what you DON'T have (Part I)

by R. Lee Fraley and Robert A. Clarke

In our last communication entitled "[Intellectual Property: when you don't know what you have](#)," we explored how businesses often fail to recognize valuable IP rights they own, and therefore, fail to appropriately protect those rights. In this communication, we discuss common fallacies regarding intellectual property (IP) ownership.

Ownership of IP can be one of the most misunderstood and elusive issues that businesses need to resolve. Many individuals or entities assume, often incorrectly, that they own a particular type of IP simply because they purchased a widget or content, or paid a third party to complete a task for them, such as constructing a prototype or creating software programs. However, the subject IP, in many instances, is not owned by the individual or entity purchasing the widget or the work product created by a hired third party. Without the appropriate knowledge and action, the IP you think is yours may actually belong to someone else.

### **General Explanation of IP Ownership**

The general rule is that the creator/developer/inventor of IP is the owner. For example, the computer engineer who writes code for a software program owns the copyright in the code; the photographer or designer who takes photographs of company products or designs a company logo owns the copyrights in the photographs and logo; the inventor of a patented widget owns the patent rights in the widget; and the first user of a trademark owns the trademark rights. If the creator/developer/inventor of such IP is an employee of a business hired to invent or create, or an employee creating and developing such IP within the scope of his or her employment, then the IP is owned by the business. In the case of copyright, the business is deemed to be the creator of the work, and the IP is deemed a "work made for hire," whereas in patent and trade secret law, the IP created by the employee, depending on state law, is typically owned by the business as such IP is assigned as a matter of law under the "hired-to-invent" legal doctrine. In contrast, if the creator/developer/inventor is an outside contractor/third party, then that contractor/third party owns the IP rights to anything created. For example, if a company hires a third-party webpage designer to create the company's webpage, the webpage designer owns the copyright to the created webpage.

To become the owner of IP created by outside contractors/third parties, you need an assignment, particularly one in writing as to copyrights. Simply hiring and paying the IP creator is not enough. In the above example involving a webpage, the company would typically have a license of some undefined scope to use the webpage from the webpage designer, but it would not own the copyright for the webpage if the webpage designer did not assign the copyright to the company by a written agreement.

Therefore, *the preference in any situation, even with employees*, is to get an assignment in writing to the company for all IP created by anyone working for the company. This can be accomplished by formal confidentiality and IP assignment agreements with such contractors or employees, or adding the requisite language in consulting and employment agreements, for example.

### **IP Created by Business Owners**

IP ownership can be even more complicated when it comes to IP being created by owners of an entity. Business owners (for example, partners in a partnership or members in a limited liability company) may assume that any IP they or other owners create for their business belongs to the business. However, unless the owner is employed by the company, and hired for such purpose or working within their scope of employment, the IP is typically owned by the creator (the company owner) absent an agreement assigning the IP to the company. Therefore, in documents dictating the structure and organization of a company, such as the Operating Agreement for an LLC, the company may wish to expressly define how IP ownership among the members and the company is to be governed, and whether any such IP can be used by members outside the business.

IP ownership among business owners becomes especially important when a partner or owner wants to leave the business. Without documentation dictating who owns IP created by non-employee owners of the business, the business owner/IP creator will likely own the IP, which may be problematic for the other owners of the business that depends on use of such IP. In many instances, the business may have an implied license to use the IP, but issues can arise in determining the scope of such a license. Additionally, in the event the business owner/IP creator ceases to be an owner, such business owner/IP creator may attempt to terminate the license, potentially leaving the business without its valuable IP assets.

**Avoiding IP Ownership Disputes**

Despite its potential complexity, IP ownership rights can be correctly secured fairly easily and at relatively low expense. Any contract, such as a partnership agreement or an operating agreement for an LLC, or a consulting agreement or an employment agreement for creators/developers, can be drafted to contain IP ownership and assignment provisions dictating who owns IP created for certain purposes or under certain circumstances. In instances where deficiencies are identified, short IP assignment agreements, or amendments to prior agreements, can often be prepared and executed by employees and third-party contractors to ensure that a company owns the IP prepared on its behalf.

Overall, IP ownership can greatly affect a company's value and growth potential by exposing it to concerns over whether the company controls the IP it thought it already owned. Therefore, entities may wish to invest a relatively small amount of time and money into correctly securing the IP they should own. This may save them the headache of attempting to correct mistaken or undesired IP ownership prior to a deal or acquisition.

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