WHO OWNS YOUR IP?

Intellectual property can be a key driver of value in many businesses, whether it is software that has been developed, specialist manufacturing techniques, trademarks or other know-how.

Article by Sam Wilson & Nick Valentine
DLA PIPER
sam.wilson@dlapiper.com
nick.valentine@dlapiper.com

WHEN INTELLECTUAL PROPERTY IS AN important component of a business, investors and prospective acquirers want to know that the business owns all the rights to that intellectual property. In most cases, owning intellectual property is preferable to licensing it.

In most cases, a business will be held in a company structure. Throughout a company's life cycle, there are times when the company's ownership of intellectual property may not be a given (for an overview of intellectual property rights in countries around the world, including New Zealand, please see DLA Piper's intellectual property and technology global comparison guide). This article describes some of those situations and the steps a company can take to ensure that it secures ownership of its intellectual property.

FORMATION

Often, prior to a company's formation, one or more of the founders may have developed technology that is protectable as intellectual property. In order to ensure the company owns that intellectual property, the founders will need to assign ownership of the intellectual property to the company. This is typically done as part of the formation process and often in full or partial payment for the founders' shares. Ensuring that each founder has signed a written assignment that documents the transfer of ownership of any developments created prior to the company's formation is a critical step in the formation process. Although the assignments can be done later, it is best practice, and often much 'cleaner' to do them upfront.

EMPLOYEE AND CONTRACTOR ONBOARDING

Most countries have legislation dealing with the 'default' position for intellectual property ownership. For example, in New Zealand work created by an employee in the course of his or her employment will be owned by the employer; and a person who commissions certain types of work (such as software) will own the copyright in that work. However, that does not apply to all types of work, e.g. a contractor commissioned to create a literary work (like a software user guide) will own the copyright in it.

The position in relation to employees is similar in Australia, but it is different for contractors - absent a written agreement to the contrary, a contractor will own all intellectual property it creates, even if it is paid to develop it. In the US, companies can rely on the work for hire doctrine to own any copyrights in developments made by employees in the scope of their employment, but the work for hire doctrine does not apply to inventions that could be protected by patents.

These examples illustrate that there are many nuances and different approaches across jurisdictions in relation to ownership of material created by employees and contractors. The position will be even more complex where a company outsources its work to other jurisdictions, e.g. by engaging software developers in India and Europe.

However, usually the default statutory position can be overridden by contract. It is best practice to ensure a company has written agreements with all employees and contractors that clearly deal with intellectual property ownership. As part of the onboarding process for all employees, consultants and contractors, a company should ensure that it has each person/company sign an employment agreement or contractor agreement with the requisite assignment language to ensure that any intellectual property created by them in the course of their employment or engagement vests in the company. Given the importance of getting this right, the employment and contractor agreements should undergo legal review for compliance with the laws of the applicable country.

DEVELOPING MATERIAL FOR CUSTOMERS

If a company develops something for one of its customers, the customer may want a written assignment of the intellectual property the company creates, or a broad licence to use it.

A company may agree that the customer should own the material being developed. However, new material could have the company's pre-existing intellectual property incorporated in it (e.g. customer-specific customisations of a company's commercial 'off the shelf' software will have bespoke code, and pre-existing code). Care needs to be taken to avoid agreeing to anything that could restrict the company's ability to use developments in its own business or provide similar or identical developments to another customer (be particularly wary of exclusive licences). Again, a written agreement addressing the parties' rights to new and pre-existing intellectual property is crucial to avoid any unintended assignments or retention of rights.

Being able to confirm that there is no ambiguity in ownership of intellectual property is essential to any company responding to diligence inquiries by an investor or prospective acquirer. Being proactive before problems appear on the horizon will help to ensure that your company avoids issues.

For help ensuring that your company secures ownership of its intellectual property, contact your legal adviser or reach out to Sam Wilson (sam.wilson@dlapiper.com) or Nick Valentine (nick.valentine@dlapiper.com) at DLA Piper.