

# Who Owns Your Company's I.P.?

By Philip L. Marcus

Several of you got together a few years ago to start a company to exploit some great new ideas in software, electronics, biotech or the like. You had a lawyer draft documents to make sure you had company ownership and governance you could live with, and that minimized your tax bite. But there was no I.P. agreement among company and founders—it was outside the attorney's interest and expertise.

It's working out pretty well, except one of you is getting antsy and wants to move on. Unfortunately, the start-up documents did not clarify who owns the intellectual property you started with or created—individuals or the company. The law on the subject is plain enough to start a legal battle, not end one.

What I.P.? Maybe patentable designs for electronic hardware, molecules that cure or diagnose disease, even business methods or computer algorithms. Copyright material could include software "source code" or manuals. There could be catchy registerable trade or service marks. There could be trade secrets for anything you would prefer not to disclose.

If one of the founders is employed by the company to innovate and does so on company time, the company is entitled to any patents, but if she incidentally innovates on company time while employed for another main purpose, the company has only the right to cost-free use of her patent, which she can sell or license to others. What a fine line. And what if this founder was getting no salary? Is she an employee at all? Maybe she is a contractor, who owns anything invented unless the contract called for a specific result—but we started by assuming there is no contract. Still, using the company's equipment for the inventing may throw the ownership to the company. What a nightmare of hard-to-apply rules.

Copyrightable material, such as computer source code, has its own rules. Generally, if the material was made in the course of employment, it belongs to the company. However, if a court finds the situation is consulting, and there is no I.P. contract among founders and company, the code copyright belongs to the founder-consultant, probably even if he is a shareholder.

Trademark and service mark rights to register depend basically on use, so if the company uses the mark, that is who can register it, even though an employee or consultant had the 'eureka moment' and thought it up.

Know-how, customer lists, recipes and business methods may be kept secret. Still, the secret to keeping them protected by law as trade secrets is ... to keep them secret—by having policies in effect and enforced that prevent even accidental making off with them, by employees, consultants and shareholders with access.

The clear winners in this game are the attorneys called in when the dispute boils up, to negotiate a deal after the fact, or to litigate ownership. They will get billable hours from all sides. The company and the individuals will pay those billable hours, and likely will also suffer loss of significant friendships. Sadly, most startup companies just want to get started exploiting their ideas, and do not deal with these matters when they could have with little or no pain.

How might your company avoid this pain? By having an experienced I.P. attorney be part of making the startup documentation. It should cover foreseeable, even unlikely events, and be signed by every founder, shareholder, employee and consultant, in appropriate forms. Do it right from the beginning, or before trouble happens.

(The contents of this article are not legal advice about specific circumstances—consult a knowledgeable attorney for advice about any specific situation.)

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