Insights: Alerts

4 Key Takeaways: Consulting Agreements – Who Owns the IP?

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Silicon Valley-based Kilpatrick Townsend Counsel **Alan Dow** focuses his practice on patent prosecution, acquisition and counseling, and on intellectual property and commercial transactions. Mr. Dow recently presented on important issues in the intellectual property arena concerning consulting agreements.

Here are four key takeaways from his presentation:

Consulting Agreements Make It Possible for Companies to Own IP Produced by Consultants

- Absent a written agreement to the contrary, whoever invents or authors IP (patentable inventions, trade secret, software, artwork, etc.) owns the IP, and a co-inventor or co-author co-owns the IP.
- Consulting agreements should grant the company ownership of IP produced by a consultant and assign IP to the company in the present.
- If the company and consultant each have rights to the IP, the consulting agreement should state clearly which party is the owner and what rights are granted to the non-owner.

Common Pitfalls in Consulting Agreements - Work for Hire Clauses

Many consultants are hired to produce creative works: website design, branding, advertisements, photography, custom software, etc.

- Under the U.S. Copyright Act, a consultant who produces a creative work is the author and owner of the copyright -- unless the work is a “work made for hire.” Thus, some consulting agreements include clauses that classify such works as “works for hire” and transfer copyright ownership to the company.
- To be considered a “work for hire,” the U.S. Copyright Act requires that the work be specifically ordered/commissioned under a written agreement, and must fall within defined categories: contribution to a collective work; part of a motion picture or other audiovisual work; a translation; etc. Most creative works fall outside these categories and do not qualify as “works for hire.”
- In California; a person who creates a work that is considered a “work for hire” under a contract with a company is an employee of the company. Consider alternatives to “work for hire” contracts, such as separate copyright assignments.

Common Pitfalls in Consulting Agreements - Conflicting Obligations

Employees of another institution may have obligations to their institution that conflict with the IP terms of a consulting agreement.

- Even if the consultant signs a consulting agreement assigning IP rights to a company, the consultant may not have the authority to override their obligations to their institution. As a result, their institution may own or co-own IP rights produced by the consultant absent explicit written permission to assign IP rights to a company that hires them as a consultant.

Common Pitfalls in Consulting Agreements - Failure to Protect Trade Secrets

- Consultants may be exposed to a company's most important trade secrets. To enforce your company's trade secrets, you must use reasonable efforts to maintain their secrecy.
- Use best practices to protect trade secrets:
  - Include well-crafted confidentiality provisions in consulting agreements. Make protection for trade secrets perpetual.
  - Restrict the consultant's access to trade secrets outside his/her responsibilities.
  - Discuss with the consultant the importance of the company's trade secrets and how the company protects them.
  - Be clear that the consultant may not share the company's trade secrets or use such trade secrets for the benefit of other companies during or after their work with your company.