

REDUCING INTELLECTUAL PROPERTY RISKS

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As the frequency of intellectual property ("IP") disputes rises, more companies must conduct IP audits more often. The process does not have to be long or painful. For many companies, a few simple steps can minimize most risks.

IP audits often focus on the company's protection of its own IP. Potential investors, purchasers and partners want to know if the company holds appropriate patents and trademark and copyright registrations, and enforces its rights.

But the coin has another side: is the company vulnerable to a charge of infringement? Virtually every type of business must consider the possibility. It is very costly to defend patent, trademark and copyright infringement claims, and infringers sometimes have to pay high damages awards. More often, an infringer is forced to change its name or one of its trademarks, or to abandon a product.

Patent claims usually arise from the sale of products containing patented technology. "Technology" does not necessarily mean "high tech" – even simple products may be patented. Trademark and copyright claims most often arise from advertising and marketing, and from the use of software and the Internet.

A company may infringe a patent or trademark without knowing it – and without copying another's IP. Copyright infringement is different: it cannot happen without copying. However, management is often unaware when company employees illegally copy others' works.

The exact issues depend upon the type and size of the company. However, a few questions can reveal the most common problems:

1. Does the Company Own What it Believes it Owns?

Management often mistakenly believes the company owns the inventions and works that were created for the company, when it does not. Unless employees and contractors have signed written agreements transferring IP rights, the company may not own rights in the work it has paid for. Patent rights belong to individual inventors, even if those inventors are company employees. Independent contractors (e.g., developers, programmers, designers) own the copyrights in the work they do.

An IP audit may begin with a review of employee and contractor invention and work for hire agreements, and a review of the company's processes to ensure these agreements are regularly signed. Also, a company may use parts of its software and other technologies through licenses obtained from others. Licenses must be reviewed to ensure their proper scope and extent.

2. Does the Company Take Steps to Avoid Infringing Others' Rights?

Most companies should consider taking the following steps to reduce the risks of IP infringement:

- Screen incoming employees: New employees who will work in design or development should be screened to ensure they do not bring IP from their former employers.
- Patent searches: Before the company introduces new technology or a new product, appropriate patent searches should be done to avoid infringing patents.
- Trademark searches: Before rolling out new names, trademarks, advertising campaigns, etc., appropriate trademark searches should be conducted to avoid infringing trademarks.
- Employee training: The company should have written IP policies, and should consider education and training for relevant employees.
- Well-written contracts: Many disputes arise because the parties' rights are not clear from written contracts. Who owns what? Do rights depend on payment or performance? What happens when the contract ends?
- Contract and license administration: The company and appropriate employees should know what limitations and restrictions have been agreed to respecting the use of IP. For example, someone should track internal business software to ensure license compliance.

A thorough IP audit will cover much more than the above items. However, a company scoring poorly with respect to these items is probably at greater risk for infringement than one that sails through with flying colors. Like so many aspects of business management, IP management is an ongoing process of improvement.

Definitions

Patent: Government-issued rights in inventions, i.e., products, manufacturing processes, other technology. Patents may also protect software designs and methods of doing business.

Trade Secret: Any commercially valuable information or technology that is maintained in secrecy. This may include patentable technology.

Trademark: Rights in names, logos, packaging, advertising slogans and other tangible "branding" elements. Trademark (trade dress) can also protect nonfunctional product design elements. Both registered and unregistered trademarks are enforceable.

Copyright: Rights in expression. Copyright protects text, design, photography, music, video, etc., as well as software, web sites, advertising materials, and sometimes databases, price lists and other less "creative" works. Copyrights can be enforced only if registered.