

Avoiding Intellectual Property Liability

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PLI Protecting your Intellectual Property Law Assets
San Francisco, December 1, 2000

I. Introduction

Counseling clients on how to avoid liability implies that the client first know what liability it needs to avoid. The key to effective counsel on avoidance in this, as in all other areas of liability, is good client relations.

Outside counsel who are retained on a case-by-case basis to handle discrete issues are not in the best position to know the client and how its business works, and therefore the most effective way to counsel the client. If you are outside counsel and you believe your firm is handling all, or most of the intellectual property needs of the client, you should think outside the box of the given problems you are asked to solve – patents or trademarks to clear or file, licenses to review and so forth. Ask yourself what procedures the client has in place to educate its employees and catch problems before they develop. If you are not satisfied by what you know, raise the issue with the client. Even though you may be proposing that the client invest in additional legal services for education and setting up procedures, most clients will understand the need and will not view the suggestion unfavorably. Any attorney will know that the job has been well done when fewer problems arise. So in effect, counsel's role in advising clients on avoiding liability is to work himself or herself out of a job.

Inside counsel have complete responsibility for understanding the extent of employee education, procedures and compliance. There is no excuse for any company with in-house counsel not to have some form of client education, review and implementation of procedures in place. If you are in-house counsel and you do not have the time or staff yourself, you must propose that outside counsel be engaged to perform these key functions. There is no one way to monitor the client's activities; it is not necessary or appropriate to have extensive forms and procedures in place. What is always necessary, however, is good client communication. If you as counsel know what your client is doing, and your client feels comfortable telling you what they are doing or want to do, you will have done your job well.

Intellectual property liability in the fields of trademark, copyright and patent are strict liability torts. Ignorance or misconception about the legal standards is no defense. Liability can be enormous – witness the nearly \$300 million lower court judgment against MP3.com for copyright infringement, and patent and trademark damages also in the hundreds of millions. Even injunctive relief, without damages, can be enough to stop a product introduction in its tracks and not only prevent profits, but cause considerable losses. An effective advocate therefore truly can be a sort of profit and loss center – if you do your job well, you will be seen as part of the team and part of the solution, not an obstacle and not the problem.

Considerations

The basic consideration is to ensure that the client is educated as to what the issues are. Additional considerations come into play with acquisitions, which require detailed review and audits of the intellectual property rights being sold or being acquired. A sample “due diligence” checklist” for licensing transactions is enclosed.

Trademark Issues

Few clients have no trademarks at all. Few clients also fail to develop new marks. Therefore ask:

- What marks are used?
 - What marks does the client want to use?
 - Are they protectable?
 - Have they been searched and cleared?
 - Have they been registered – what is scope of registration?
 - Are they being policed against infringement?
- Looking at it the other way, does the client understand that it cannot, in most circumstances, use third party marks, or understand the circumstances in which it can use them.
- Identify key parts of the client organization dealing with these issues – product managers, brand managers, corporate communications. Attend their meetings or get copies of memos outlining new product initiatives and branding strategies. Understand what the product roll-out will be to define the scope of needed registrations.

- Audit the marks the company is using – are they registered? Are they registered in the company's name? Have all marks acquired in acquisitions been assigned to the client domestically and internationally?

Copyright Issues

The client does not need to be a software company or motion picture studio to be an owner of important copyright rights, or at risk of using third party copyrights which could result in liability.

- Identify the types of copyrightable subject matter the client is producing, and whether it is used internally or externally.
- Determine ownership of the copyrights – employee versus non-employee authorship.
- Review all standard contracts dealing with copyright subject matter – television and web ads, software development licenses, photographer's contracts – it will vary from client to client. Consider the "work for hire" versus "assignment" issues.
- Review existing contracts for the development of key products or other assets to ensure that the client in fact is the copyright owner. If the client has not "authored" a work in its entirety, ensure that assignments are in place.
- Develop and follow through on a registration strategy for copyright subject matter that is either likely to be exploited by the client, or copied by competitors for competitive advantage (this can include such humble items as catalogs, operation manuals and the like).
- Monitor client business methods to ensure that they do not involve unauthorized use of another's copyrighted works unless there is strong ground for fair use.

Patent Issues

With business methods patents today, a client does not need to have a laboratory or engineering department to need to consider its patent portfolio or potential portfolio, and whether or not it may be infringing third party patents.

- Understand what key technologies the client uses
- Understand what new business methods may be adopted
- If necessary search to avoid infringement, or search in preparation for a patent filing

- Assess the usefulness of technology for future exploitation by the client and third parties to understand if the cost of patenting is worthwhile, or if there are purely defensive reasons to file
- Establish procedures for “laboratory notebooks”, guidelines on new methods or new technology development, education about on-sale or disclosure bars and the like
- Audit thoroughly any technology that will be licensed by or to the client.