Intellectual Property Rights and Ownership Issues

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Abstract. This paper provides supply professionals an overview of intellectual property rights and ownership issues to watch out for in the procurement of goods and services. Some of the issues involve proprietary or customer specified software, business methods, or components. Appropriate contract language should be considered when dealing with these issues.

The Opportunity. As more and more suppliers increase their holdings of intellectual property assets, spurred along by global financial markets which continue to place increasing value on such IP assets, supply professionals are increasingly faced with goods and service providers that are keenly aware of their own IP rights and the requirements for ownership of IP assets. The four major types of IP include: 1) patents, 2) trademarks, 3) trade secrets, and 4) copyrights. Each type of IP has its own nuances and peculiarities with respect to rights and ownership issues. Supply professionals familiar with the major types of intellectual property will be better equipped to identify potential IP rights and ownership issues earlier in supply negotiations and, consequently, stand a better chance of avoiding at least some of the perils and pitfalls of IP rights and ownership involved in the procurement of goods and services. Some of the issues involve proprietary or customer specified software, business methods, or components.

Intellectual property is sometimes defined (as in the U.S. bankruptcy code definitions, Title 11 of the United States Code) to include the following categories of property: 1) trade secrets, 2) inventions, processes, designs or plants protected under federal patent law, 3) patent applications, 4) plant varieties, 5) works of authorship protected under federal copyright law, and 6) mask works protected under Chapter 9 of Title 17 of the United States Code. However, the more practical and useful definition includes the four major types of IP mentioned above, namely: 1) patents, 2) trademarks, 3) trade secrets, and 4) copyrights.

Patents. A patent is for inventive discoveries and is an exclusionary right granted by the federal government to the owner of the patent to exclude others from making, using, selling, offering to sell, and importing any products covered by a claim of the issued patent. The inventor owns the patent unless assigned to another entity. Generally, a patent has a term of 20 years from its date of filing.

Trademarks. A trademark is defined as a word, name, symbol, slogan, or device used to identify and distinguish the owner's goods or, in the case of a service mark, the owner's services. A trademark is used to indicate the origin of those goods and services and connotes a particular standard of quality. A trademark owner has the exclusive right to use the mark on or with the owner's goods and services and to prevent others from using a similar mark that is likely to cause confusion among consumers as to the source of the trademarked goods or

services. Generally, a trademark continues in force as long at it is used, and the trademark user owns the mark unless the trademark is assigned to another entity. If assigned, ownership is usually assigned along with all goodwill in the business with which the trademark is used.

Trade secrets. A trade secret is any information that can be used in a business that is sufficiently valuable and secret to afford an actual or potential economic advantage over others. A trade secret can be a formula, pattern, compilation of data, computer program, device, method, and so on. Maintaining a trade secret generally requires the use of codified practices and procedures to control the access to such information. A trade secret may be maintained indefinitely. Ownership of a trade secret may be transferred from one party to another by contract or agreement.

Copyrights. A copyright is for expressive writings and is a right granted by the federal government to the creator or owner of an original work of authorship that is fixed in a tangible medium of expression from which it can be perceived, reproduced, or otherwise communicated, either directly or indirectly or with the aid of a machine or a device. Such works include literary works, computer programs, musical works, and motion pictures. A copyright owner has the exclusive right to reproduce the copyrighted work, to prepare derivative works based on the copyrighted work, to distribute copies of the copyrighted work, to perform the work in public, and to display that work in public. The author or creator owns the copyright in the work unless all or part of such copyrights are assigned to another entity.

Ensure Future Clear Title to Intellectual Property. Given a basic understanding of the various types of intellectual property most commonly involved in supply agreements, supply managers should make attempts to ensure that the future title (ownership) of the IP is clear. The following requirements (of the supplier) should be considered:

1) Require all employees, at the time of hire, to sign employment agreements that obligate the employee to assign all forms of innovations made in the course of or relating to their employment, and to maintain confidence with respect to the employer's confidential information. The agreement to assign should also include actual (present tense) assignment language (of an expectant interest) even though the innovations will take place in the future. Copyrightable works of authorship should be included. A listing of IP owned by the employee prior to employment should be included also.

2) Require consultants, prior to the commencement of a project, to execute consulting agreements similar to the above-described employment agreements. Such agreements should include copyright work-for-hire language (or "magic words").

3) Require joint product developers and collaborators to execute agreements, prior to the commencement of joint projects, setting forth ownership and license rights with respect to "project technology" developed in the course of the project, and pre-owned "background technology". Escrow services should be involved to, for example, ensure access to previously developed software source code that is critical to the operation of purchase components.

Some of the perils and pitfalls associated with IP rights and ownership issues include the following hypothetical situations: What if you buy a patented part and the patented part has an inventor (supplier's employee) who never assigned her rights to the supplier, and, later, this

employee leaves the supplier and takes with her her inventorship (and, thus, ownership) of her invention (i.e. the patented part)? Can the former employee stop the supplier from using and selling the invention? Can the former employee sue your supplier? Can the former employee sue you? Shop rights and notions of fair use come into play, all of which can be avoided if IP ownership issues are addressed early in the supply relationship. Indemnification clauses in your T's & C's should address liabilities. If, however, an injunction is issued that prevents your supplier from shipping the patented part, you will need to scramble to find near term supply.

What if you have an exclusive supply arrangement but the IP is jointly owned due to perhaps a joint inventorship situation? The other joint inventor (co-owner) may practice the invention in its entirety, not just that portion of the invention contributed by that joint inventor.

What are the implications of a potential supplier patenting developments undertaken as the result of receiving and responding to your RFQ or RFP? Without confidentiality agreements prior to the release of the RFQ/RFP, you may have to choose from a supplier pool of one, the one with the issued patents. Or, you may need to look more carefully at supplier proposals for designing around the patents.

What if the purchased item includes trade secret information or proprietary software? If the trade secret information is not addressed contractually, this may be less of an issue. As for proprietary software, unless a software escrow or some other form of source code access arrangement was made prior to or in connection with the supply agreement, you may have few supply choices.

Objectives. A discussion will be presented that will describe the major types of intellectual property, common IP rights and ownership issues associated with those types of IP, and exemplary contract language for addressing those issues.

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