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FAQ about IP Issues in Commercial Deals

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Roadmap

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- IP-Related Issues in Common Commercial Deals
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 - IP Indemnities and Limitations of Liability
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The image features a central white horizontal band. Above and below this band is a blue abstract background composed of overlapping, semi-transparent, wavy shapes in various shades of blue, creating a sense of depth and movement.

Introductions

The image features a central white horizontal band containing the text. The background above and below this band consists of overlapping, semi-transparent blue shapes in various shades, creating a dynamic, abstract pattern.

Brief Overview of IP Rights

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- Four main buckets of IP rights:
 - Copyrights
 - Patents
 - Trademarks
 - Trade Secrets

- Expanded definition:
 - Publicity (people and likeness)
 - Data (data, databases, personal information)

Copyrights

- Works of authorship fixed in a tangible medium of expression.
- For many in-house lawyers, often arises in the context of software and services agreements.
- ***Key point*** – Copyrights exist automatically. No registration required!

Patents

- “[A]n exclusive right granted for an invention, which is a **product or a process** that provides, in general, **a new way of doing something, or offers a new technical solution to a problem.** To get a patent, technical information about the invention must be disclosed to the public in a patent application.”
(World Intellectual Property Organization.)
- Right to exclude others from making, using, offering to sell, selling, and importing during the term of the patent.

Trademarks


- “Any word, name, symbol, or device, or any combination thereof [used] . . . to identify and distinguish...goods...from those manufactured or sold by others and *to indicate the source of the goods*, even if that source is unknown.”

15 U.S.C. §1127 (emphasis added)

Trade Secrets

- “[A]ll forms and types of financial, business, scientific, technical, economic, or engineering information, . . . whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—
 - the owner thereof has ***taken reasonable measures to keep such information secret***; and
 - the information derives ***independent economic value***, actual or potential, ***from not being generally known*** to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information[.]”

18 U.S.C. § 1839 (emphasis added)

The background of the slide is a vibrant blue with abstract, overlapping geometric shapes that create a sense of depth and movement. A central white horizontal band contains the main text.

IP-Related Issues in Common Commercial Deals

Common Deals Where IP Issues Abound

- Master Services Agreements
- Software License Agreements
- Hosted (a/k/a cloud-based) Services Agreements
- Collaborative Development Agreements (e.g., joint venture, R&D, sponsored research)
- Manufacturing/Supply Agreements
- Many combinations and variations of the above

Key IP Issues - Ownership

- Context is **everything**. There is no “right” answer.
- Both sides often push to own everything. Consider who makes the most sense as the owner. The other party can usually take a license and be fine.
 - For services agreements, consider whether deliverables are completely or mostly custom, or just off-the-shelf items with immaterial tweaks.
 - For hosted services, consider whether the customer could ever actually reuse the customizations without the underlying platform.
 - If deliverables were customized based on customer’s proprietary specs, customer might push to own so competitors don’t get access.

Ownership Considerations (continued)

- For software and services agreements, will the vendor's business be unfairly hampered if it can't use the materials again?
- For collaborative development agreements, consider:
 - Who will do the development work as a practical matter?
 - Who should manage and pay for IP prosecution and maintenance?
 - Should a JV entity be formed to own and maintain the IP?
 - Does the expected IP fall more neatly into one party's industry?
 - Which party is in the best position to make use of the developed IP?
 - Will the fruits of commercialization be shared?

Licenses: Scope Depends on Type of IP

Copyright

- Reproduce
- Distribute
- Prepare derivative works
- Publicly display
- Publicly perform

NOTE: No statutory basis for “*use*” or “*modify*”

Trademark

- Types of goods and services
- Nature of use/quality control

Patent

- Make
- Have made
- Use
- Sell
- Import

Trade Secret

- Use for a particular purpose
- Protection of secret

Often Overlooked Issues

- Customer may need a non-exclusive, perpetual, irrevocable license to any of vendor's Background IP embodied or included in deliverables.
- Vendor should be obligated to secure the necessary rights from its personnel to effect the assignments/licenses in the contract.
- For copyrighted works, absent an employment relationship or a contract, ownership resides in the author of the work.
- Joint ownership of a patent sounds like a good solution but often leads to major issues.

Copyright Work Made for Hire

- A “work made for hire” is—
 - (a) a work prepared by an employee within the scope of his or her employment; or
 - (b) a work specially ordered or commissioned for use: (1) as a contribution to a collective work, (2) as a part of a motion picture or other audiovisual work, (3) as a translation, (4) as a supplementary work, (5) as a compilation, (6) as an instructional text, (7) as a test, (8) as answer material for a test, or (9) as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.

(17 U.S.C. § 101)

Securing Ownership

- Customers should use a multi-pronged approach to ensure ownership properly transfers.
 - “If and to the extent any Work Product does not constitute a work made for hire under applicable law, [Vendor] hereby assigns to [Customer], as of the date of creation or development, [Vendor’s] entire right, title, and interest in and to all such Work Product.”
 - Require Vendor to have in place written agreements with its personnel ensuring that the IP grants flow down.
 - Require vendor to promptly report developed IP to Customer.

Securing Ownership (continued)

- Customers should use a multi-pronged approach to ensure ownership properly transfers.
 - Prohibit Vendor from using third-party IP or its own background IP without customer's consent.
 - Require Vendor (and its personnel) to execute additional documents to effect transfers and/or confirm Customer's rights.
 - Give Customer the right to execute documents in the event Vendor (or any personnel) refuses or cannot be found.

Representations and Warranties

- Vendor has all rights necessary to grant the rights to customer.
- Originality / Non-infringement
 - Developed IP and/or Background IP
 - Should cover customer's use, not just the IP itself
- No “copyleft” open source software code
- No malicious code

IP Indemnities

- Should cover customer's use, not just the IP itself.
- Vendors may limit scope of coverage by territory, commercial field, IP type, and others.
- Common exceptions to indemnity coverage if the claim arises [*solely*] out of :
 - modifications of deliverables done by [or on behalf of] the customer
 - use of deliverables with other products or services [not contemplated by the agreement or described in the contract or product documentation]
 - continued use after being told of the claim [and being provided a new version that avoids infringement without material impact]
 - customizations based on customer's specs

Common Remedies for IP Claims

- If an IP Claim arises (or the vendor thinks one will), Vendor can [or must]:
 - Modify the deliverable to avoid the infringement [without materially degrading customer's experience]
 - Replace with a non-infringing alternative [without materially degrading customer's experience]
 - Purchase rights for the customer to keep using the materials [on commercially reasonable terms]
 - Remove the infringing portion and provide a [pro-rata] refund
- Vendors often push for these to be customers' sole remedies for IP claims. Customers typically push back.

IP Indemnities and Limitations of Liability

- IP infringement claims are frequently carved out from damages caps. If not completely unlimited, will usually have a super cap.
- As with other indemnities, exclusions of consequential and indirect damages often do not apply to IP infringement claims.
- Many levers to be pulled to reach a compromise (e.g., limit coverage to patent and copyright claims, limit to certain territories).

Questions?



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