CUTTING EDGE OR BLEEDING EDGE – IDENTIFYING, AVOIDING, AND ALLOCATING INTELLECTUAL PROPERTY RISKS IN ADOPTING NEW TECHNOLOGY

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Types of Intellectual Property

• Patents
• Copyrights
• Trademarks
• Trade secrets
Patents— Example

Widget Mart decides to incorporate a new feature on its website to make shopping/ordering easier for its customers, such as one-click
Risks and Responses

• Could Widget Mart be sued for patent infringement?
• If sued, what can be done to minimize litigation expenses?
• Are there any strategies for ending the lawsuit early?
Real Life Situations Involving IP

• Patent “trolls” may sue multiple defendants seeking small individual settlements to collect large aggregate amounts
  • E.g., *eDekka, LLC v. 3Balls.com, Inc. et al.*, No. 2015-Civ-0541 (E.D. Tex. filed Apr. 24, 2015)
    • Plaintiff sued 200 businesses in E.D. Tex. and settled over 100 cases before the court ruled that the patent was invalid (i.e., should not have issued)
    • Thus, Plaintiff extracted substantial settlement funds for an invalid patent
Minimizing Litigation Expenses in Patent Suits

• Indemnification
  • Seller of product/service may expressly indemnify purchaser against legal claims for infringement or the Uniform Commercial Code may apply

• Joint Defense Agreements
  • Arise where multiple defendants agree to split defense costs and/or to divide up and coordinate activities

• Section 101 Motions, Patent Office Proceedings, Motions to Stay
  • Strategies to end suit or stay proceedings early in the case
Express Indemnification

• Where provider of a good or a service agrees to accept responsibility for harm caused by the good or service

• Key provisions of typical indemnification agreement:
  • Prompt notice
  • Control of litigation
  • Carve out language
Express Indemnification – Prompt Notice

- Indemnification clauses typically require prompt notice of suit—often within a specific time period, such as 30 days

- Purpose of Prompt Notice:
  - Enables indemnifying party to set proper reserves and to decide whether to exercise right to defend the case

- Without prompt notice, indemnification may be voided
Express Indemnification – Control of Litigation

• Indemnifying party frequently wants to control selection of counsel and settlement of the litigation:
  • To monitor and direct the litigation
  • To ensure settlements are reasonable
Express Indemnification – Carve out Language

• Because of the potential expense of litigation, indemnification clauses frequently include language carving out intellectual property suits from coverage

• Party seeking indemnification will need to strike any language omitting intellectual property suits from coverage
Implied Indemnification under the UCC

• Goods sold under the Uniform Commercial Code (UCC) carry an implied warranty against infringement

• But UCC applies only to goods, not to services

• Software is not necessarily a “good” because it may include maintenance/support services (state law issue)
  • Are the services ancillary to sale of the software
  • Did the license/sales agreement transfer title to the buyer
Implied Indemnification under the UCC

- Implied Warranty of Non-Infringement
  - Only applies to merchants who regularly deal in type of goods accused of infringement
  - Does not apply where buyer supplies specifications for goods
Disclaimer of Implied Warranties

• Many sales/purchase agreements include disclaimers of implied warranty of non-infringement

• Many states require direct privity between party seeking indemnification and indemnitor:
  • California — Privity required; no privity between seller and subsequent purchaser who was not a party to the original sale
  • Texas — Privity not required

• If indemnitor is insolvent, indemnification clause may be of limited value
Joint Defense Groups

• Relevant when multiple defendants are sued together for common acts of infringement

• Can take multiple forms:
  • Two or more defendants retaining the same counsel and dividing up the costs
  • Two or more defendants retaining different counsel and dividing up different aspects of defense, including certain expenses such as expert witnesses
Joint Defense Groups – Privilege

• Courts have generally construed attorney-client privilege to be waived when “any holder of the privilege, without coercion, has disclosed a significant part of the communication or has consented to the disclosure made by anyone”

• “Common interest privilege” or “joint defense doctrine”
  • Courts have recognized narrow exceptions where privilege is preserved even when confidential information is shared with a third party
  • Each state interprets differently
  • A written agreement is not required but is recommended
Strategies to End/Stay Suit

• Challenges to Subject Matter Eligibility under 35 U.S.C. § 101

• New Procedures at the USPTO

• Motions to Stay Litigation
Subject Matter Eligibility

• Patent eligibility is governed by 35 U.S.C. § 101:
  • “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”

• Courts have created three exceptions to this broad eligibility:
  • Laws of Nature
  • Physical Phenomena
  • Abstract Ideas
Motion to Dismiss

• Defendants can bring a motion to dismiss patent claims as ineligible for patent protection at the very beginning of a case—even before filing an Answer

• Defendant must first show that the patent claims are directed to a law of nature, physical phenomena, or abstract idea

• However, courts have given little guidance on how to prevail
New Procedures at the USPTO

• Post-Grant Review (PGR)
  • Can challenge the validity on any ground
  • Must be brought within 9 months of issuance of the patent

• Covered Business Method (CBM) Review
  • Limited to patents covering financial products or services
  • Can challenge the patent as anticipated, obvious, or subject matter ineligible

• Inter Partes Review (IPR)
  • Can challenge the patent as anticipated or obvious
  • Must be filed within one-year of service of Complaint
Inter Partes Review (IPR)

• Key Aspects:
  • Reduced expense as compared to district court litigation
    • Cost to prepare initial petition estimated at around $70,000-$100,000, and costs through trial is around $300,000-$400,000
  • A focused invalidity inquiry with expedited discovery
  • Shorter time to decision
    • District court litigation typically takes 2+ years
    • PTAB must issue a decision within 1 year of institution
Inter Partes Review (IPR)

• Key Aspects (cont.):
  • Patent claims not accorded presumption of validity
  • Review by a panel of patent judges who are trained in patent law
  • Potential estoppel from arguments that could have been raised in the IPR
    • A petitioner is estopped from raising later any argument that it could have raised in the IPR
    • Only applies to grounds for which the PTAB instituted the IPR
Motions to Stay Litigation

• Frequently, district courts will stay litigation while the PTAB considers an IPR petition

• Courts consider whether . . .
  • a stay would unduly prejudice or tactically disadvantage the opposing party
  • a stay will simplify the issues and streamline the trial
  • discovery is complete and a trial date has been set

• Decisions to stay pre-institution vary by state, but district courts nearly universal grant motions to stay once an IPR is instituted
Copyrights – Example

Widget Mart hires an employee or independent contractor to create a new sales brochure
Risks and Responses

• Who owns the copyright in the work?
• Is it registered?
• If later sued for copyright infringement, can an Offer of Judgment reduce the risk of paying attorneys’ fees?
Works Made For Hire

• The Copyright Act defines a “work made for hire” as:
  • A work prepared by an employee within the scope of his or her employment or
  • A work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or 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
Assignments

• Software, website design, and brochures not properly the subject of a work-for-hire agreement → must instead have assignment agreement

• Sample assignment language could state:

  • [The author] “hereby assigns” to [the business] all its rights, title and interest in the work entitled [Insert Name of Work] and described in Appendix A, as well as all rights, title and interest [the author] may hold in any derivative works.

  • “hereby assigns” vs. “agrees to assign”
Copyright Registration

• Relatively easy and fairly inexpensive

• Must be registered before copyright can be enforced in court

• Early registration permits statutory damages and possibility of recovering attorney’s fees in litigation
  • Registration may be used as leverage against accused infringer
  • Late registration, or lack thereof, may be used as leverage against copyright holder
Offer of Judgment

• Rule 68(a) states:

  • At least 14 days before the date set for trial, a party defending against a claim may serve on an opposing party an offer to allow judgment on specified terms, with the costs then accrued. If, within 14 days after being served, the opposing party serves written notice accepting the offer, either party may then file the offer and notice of acceptance, plus proof of service. The clerk must then enter judgment.
Trade Secrets – Example

Widget Burger hires an employee or independent contractor to develop a new fast-food ordering “app”
Risks and Responses

• Will the employee/contractor misappropriate Widget Burger’s trade secrets?

• Will the employee/contractor incorporate trade secrets from a former employer into the new “app”?
Reasonable Measures to Maintain Secrecy

Trade Secret = information for which “the owner thereof has taken reasonable measures to keep . . . secret” and that “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.
"Reasonable Measures"

• Non-Disclosure Agreements
• Security Measures
• Others (balancing cost of protection and value of trade secret)
Non-Disclosure Agreement Considerations

• Reasonable in scope

• Inevitable Disclosure Doctrine - a court may enjoin “any actual or threatened misappropriation ... provided the order does not prevent a person from accepting an offer of employment under conditions that avoid actual or threatened misappropriation.” 18 U.S.C. § 1836(b)(3)(A)(i).

• DTSA Whistleblower Notice: Employees/contractors will not be liable (under federal law) for disclosing a trade secret “in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney” if the disclosure is “solely for the purpose of reporting or investigating a suspected violation of law.” 18 U.S.C. § 1833(b)
Security Measures

• Limit access of information strictly to those who need to know
• Maintain data on corporate servers (not local computers)
• Do not allow employees/contractors to take data outside office
• Other reasonable security protocols such as encryption, monitoring and logging access, etc.
Avoid misappropriating trade secrets of others

• Require representation from new employees that they will not use proprietary information from a former employer

• Use clean room protocols to limit access of new employees/contractors to avoid appearance of impropriety
QUESTIONS