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**ANNUAL
INTELLECTUAL
PROPERTY
LAW SEMINAR**

DECEMBER 6, 2017
KANSAS CITY, MISSOURI

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A graphic featuring several interlocking gears. The top gear is light blue and has the word "INTELLECTUAL" written on it. The bottom gear is a darker blue and has the word "PROPERTY" written on it. The gears are set against a background of more gears in various shades of blue and grey.

Welcome

Annual Intellectual Property Law Seminar
December 6, 2017

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**Case Law Update: Recent
Patent Developments**

By: Nathan Oleen

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Two Cases

- *TC Heartland*
 - Patent venue
 - Statutory construction
- *Oil States*
 - *Inter partes* review (IPR)
 - Constitutional law

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Forum Shopping

- Year prior to *TC Heartland* decision
- 4,514 cases

Forum	Cases	Percentage
E.D.Tex.	1626	36.0%
Others	1523	33.7%
D.Del	549	12.2%
C.D.Cal	287	6.4%
N.D.Ill	210	4.7%
D.N.J	168	3.7%
N.D.Cal	152	3.4%

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Marshall Division, E.D.Tex



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TC Heartland v. Kraft Food Group

- Patent battle over “water enhancers”
- **Issue:** Where can suit be brought for patent infringement against a domestic corporation?



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HUSCH BLACKWELL***TC Heartland v. Kraft Food Group***

- Kraft sued TC Heartland in Delaware for patent infringement relating to flavored drink mixes
- TC Heartland is an Indiana LLC with its HQ in Indiana
- TC Heartland ships its products to Delaware
- TC Heartland moved to dismiss or transfer venue to S.D.Ind.

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HUSCH BLACKWELL**Relevant Statutes**

- 28 U.S.C. § 1400(b)
 - Provides that patent infringement cases may be brought either in:
 - (1) the **judicial district** where the defendant **resides** or
 - (2) where the defendant has committed **acts of infringement** and has a **regular and established place of business**
- 28 U.S.C. § 1391(c)
 - Provides that a defendant corporation “shall be deemed to reside . . . in any judicial district in which [it] is subject to the court’s personal jurisdiction with respect to the civil action in question”

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TC Heartland v. Kraft Food Group

- Supreme Court held:
 - As applied to domestic corporations, “residence” in § 1400(b) refers only to the state of incorporation.
- Is this a “Change in Law”?
 - *In re Micron Technology*, Federal Circuit (November 15, 2017)
 - Determined that *TC Heartland* did change patent venue law
 - Relevant to whether a defendant “waived” its venue defense by not objecting to venue in its first motion

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Impact: 150 Days Before and After

Patent Cases Down 56% In Texas’ Eastern District

150 Days Before TC Heartland			150 Days After TC Heartland		
543 33%	217 13%	881 54%	237 14%	395 23%	1,075 63%
Eastern District of Texas	District of Delaware	All Other Districts	Eastern District of Texas	District of Delaware	All Other Districts

Source: Lex Machina

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HUSCH BLACKWELL***Oil States Energy Serv. v. Greene's Energy Group***

- Patent battle over “fracking technology”
- **Issue:** Do *inter partes* review (IPR) proceedings violate the Constitution by extinguishing private property rights through a non-Article III forum without a jury?



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HUSCH BLACKWELL**Background**

- What is an IPR?
 - Proceeding conducted by the PTAB of the USPTO in which the validity of already-issued patents are reviewed based on prior art (patents or printed publications)
 - Validity is decided by administrative judges, not Article III judges or juries
- IPRs have completely changed patent litigation over the last 5 years since AIA was enacted
- *Oil States* puts IPRs into question

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HUSCH BLACKWELL***Oil States Energy Serv. v. Greene's Energy Group***

- Oil States sued Greene's Energy for patent infringement
- Greene's Energy filed an IPR
- PTAB found the patent to be invalid
- Oil States appealed to the Federal Circuit arguing that IPRs violate Article III and the Seventh Amendment of the Constitution, but was unsuccessful
- Oil States then appealed to the Supreme Court

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HUSCH BLACKWELL***Oil States Energy Serv. v. Greene's Energy Group***

- Are patent rights a public right or a private right?
 - Comparison between patent rights and rights in land
- Parties (and amicus briefs) have turned to the laws of England from centuries ago in making their case
- Oral argument was heard on November 27, 2017
- Decision is pending



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Reading the Tea Leaves

- While difficult to predict what the Supreme Court may do, the Court may currently be split on what to do with IPRs
- If the Court was disposed to find IPRs unconstitutional, why take up another IPR case (*SAS Institute v. Lee*)?
- Could the Court indicate that judicial review may, at some point during an IPR proceeding, be necessary? Would this lead to a statutory amendment?
- Stay tuned

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Case Law Update: Copyright and Trademark Recent Developments

By: Daan G. Erikson

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Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)
(Thomas, Roberts, Alito, Sotomayor, Kagan; Ginsburg
concurring; Breyer, Kennedy dissenting)



Star Athletica
Design



Varsity Brands
Design

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Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)



Star Athletica
Design



Varsity Brands
Design

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Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)

- Varsity Brands sued Star Athletica in the Western District of Tennessee for infringing five of its copyrighted designs for cheerleading uniforms.
- Western District of Tennessee held for defendant Star Athletica on summary judgment, designs were not copyrightable because the designs were utilitarian, served a function of identifying garments as cheerleading uniforms.
- 6th Circuit reversed and held for copyright owner Varsity Brands, designs could exist separately.
- Supreme Court granted cert to settle circuit split and outline the proper test for conceptual separability.

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HUSCH BLACKWELL***Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)***

- **Background:**
 - “useful articles” not eligible for copyright protection
 - “physically or conceptually separable” elements of useful articles are eligible for copyright protection
 - At least 9 different tests for conceptual separability across various circuit courts and even within the same circuit

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HUSCH BLACKWELL***Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)***

- **Holding:** “[A]n artistic feature of the design of a useful article is eligible for copyright protection if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work either on its own or in some other medium if imagined separately from the useful article.”
- Back to the statute?
 - “the design of a useful article, as defined in this section, shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article”

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Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)

- **Takeaways:**

- Useful article need not remain after separability;
- Focus is only on separable part, not any “left behind” parts;
- No distinction needed between physical separability and conceptual separability, all conceptual;
- No focus on artistic judgment;
- No focus on marketability;
- Shape, cut, and physical dimensions of clothing still not eligible for copyright.

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Star Athletica v. Varsity Brands, 137 S. Ct. 1002 (2017)

- **Ginsburg Concurrence:** Why did we even look at conceptual separability? Registered designs are 2D works “*reproduced on useful articles*” not “*designs of useful articles.*”
- **Breyer Dissent:** Something about cat lamps and a shovel as art.



- Case is now remanded back to the district court to determine whether the designs at issue in the case are actually protected by copyright.

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Matal v. Tam, 137 S. Ct. 1744 (2017) (8-0) (Alito)

United States of America
United States Patent and Trademark Office

THE SLANTS

Reg. No. 5,332,283	Tam, Simon Shiao (UNITED STATES INDIVIDUAL) 8026 S.e. Reedway St. Portland, OREGON 97206
Registered Nov. 14, 2017	CLASS 41: Entertainment in the nature of live performances by a musical band
Int. Cl.: 41	FIRST USE 11-15-2008; IN COMMERCE 11-15-2008
Service Mark	THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT STYLE, SIZE OR COLOR
Principal Register	SER. NO. 85-472,044. FILED 11-14-2011

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Disparagement Clause

Lanham Act §2(a)

- No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it--
- **(a)** Consists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute

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HUSCH BLACKWELL**Disparagement Clause Unconstitutional**

- Tam sought to register THE SLANTS, rejected as disparaging;
- TTAB affirmed Examining Attorney's rejection;
- Tam appealed to Federal Circuit, *en banc* ruling that disparagement clause is "facially unconstitutional under the First Amendment's Free Speech Clause";
- Several Fed. Cir. Judges wrote concurrences;
- The Government filed petition for cert;
- Supreme Court granted cert to decide whether disparagement clause is constitutional.

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HUSCH BLACKWELL**Disparagement Clause Unconstitutional**

- Supreme Court rules 8-0:
 - Disparagement Clause regulates content or viewpoint based speech in violation of 1st Amendment free speech;
 - Limiting expressive speech requires strictest scrutiny;
 - Even if commercial speech, government fails to meet its burden in demonstrating substantial interest in curtailing speech and narrowly drawing limits;
 - Rejects claims that trademarks are government speech or government subsidies.
- Washington Redskins case subsequently dropped.

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HUSCH BLACKWELL**Immorality and Scandalousness:
Next to fall?**Lanham Act §2(a)

- No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it--
- **(a)** Consists of or comprises **immoral**, deceptive, or **scandalous matter**; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute

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HUSCH BLACKWELL***In re Brunetti*, No. 2015-1109 (Fed. Cir. filed Oct. 28, 2014)**

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HUSCH BLACKWELL***In re Brunetti, No. 2015-1109 (Fed. Cir. filed Oct. 28, 2014)***

- Found to be immoral or scandalous by the Examiner;
- Ex parte appeal, TTAB affirmed rejection under current rulings;
- Now before the Federal Circuit;
- Oral argument was in August, decision pending.

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HUSCH BLACKWELL***Louis Vuitton Malletier, S.A. v. My Other Bag, Inc., 674 Fed. Appx. 16 (2d Cir. 2016) (Summary Order: Calabresi, Raggi, Lynch)***

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Elliott v. Google, 860 F.3d 1151 (9th Cir. 2017) (Tallman, Guirola; Watford concurring)



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Post-Grant Patent Practice

Pitfalls & Advantages

By: Joe Zahner

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Agenda

- Backdrop – Freedom-to-Operate
- Third-Party Patent Practice
- Inter Partes Review Process & Stats
- Contemporary Issues
- The Future – *Oil States* and *SAS*

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FREEDOM-TO-OPERATE



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Operational Awareness

- Competitive analysis and a monitoring program
- FTO opinion / invalidity or non-infringement opinion
- Design around
- Third-party Action
- Licensing

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Post Grant (3rd Party) Patent Practice


	Timing	Grounds
TPS	Prior to later of: 6-mo post-publication; first rejection	Printed pubs and patents
Ex Parte Reexam	Anytime	§§ 102, 103 based on printed pubs and patents
PGR	Within 9 months of grant (on or after March 16, 2013)	§§ 101, 102, 103, & 112
CBM-PGR	Anytime once sued or charged with infringement	§§ 101, 102, 103, & 112
IPR	Pre-AIA: anytime Post-AIA: after 9 months	§§ 102, 103 based on printed pubs and patents
District Court	Anytime	All affirmative defenses

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INTER PARTES REVIEW

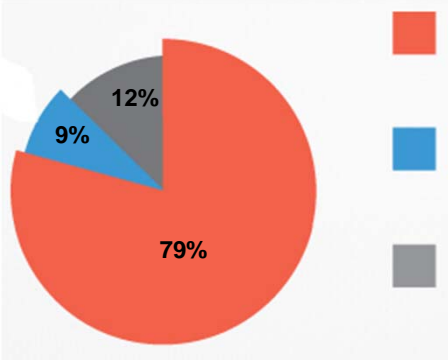
Patent Death Squad?



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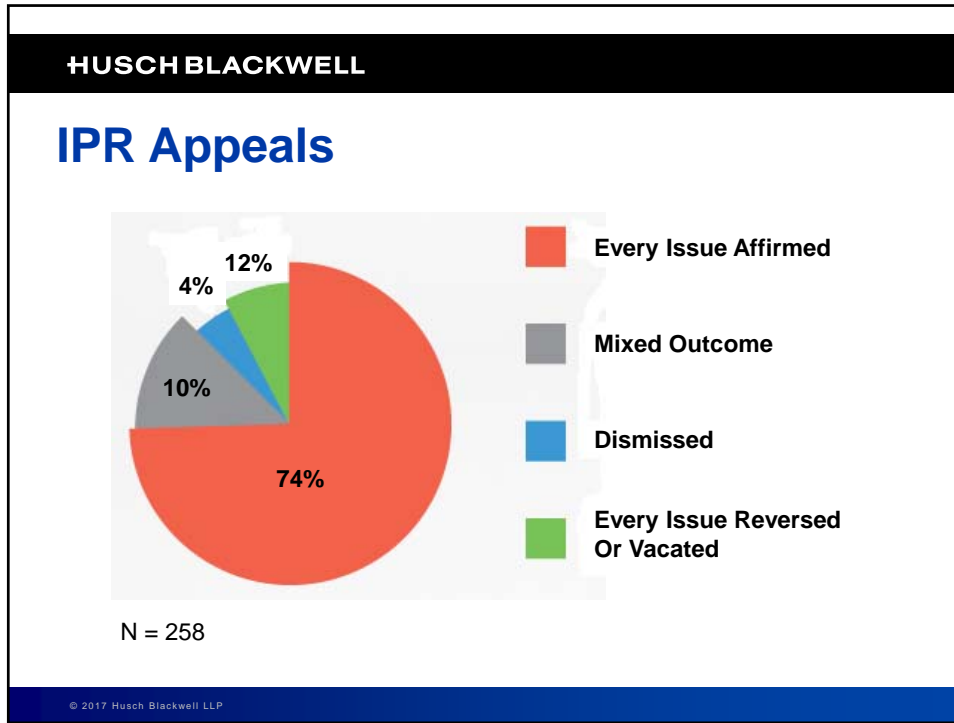
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Disposition of IPR Petitions



Disposition	Percentage
No Instituted or Substituted Claims Survived	79%
Mixed Outcome	9%
All Instituted Claims Survived	12%

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	District Court	PTAB
Standing	Article III	Any member of the public other than patent owner Must have standing to appeal
Burden of Proof	Presumed valid Clear & Convincing	No validity presumption Preponderance
Claim construction	Ordinary & Customary Meaning (Phillips)	Broadest reasonable interpretation (BRI) Phillips if patent expires within 18 months
Amendment	Fixed target	PO can move to amend Intervening rights apply
Time	2 + years	6 months Institution Decision → 12 months Trial
Issues	Infringement, validity, enforceability, prior use	102/103 based on printed materials
Discovery	Broad	Narrow – <i>Garmin</i> Factors
Trial	Depositions, live testimony	Written depositions and cross (observations), telephonic conferences, video, oral argument w/ 3 judges
Appeal (Fed. Cir.)	Clear error	Substantial evidence
Avg. Cost	\$970K - \$5,900K (final)	\$200K - \$750K

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Timing and Choice

- If Petitioner = D in infringement, IPR must be filed within one-year of service
- Cannot file if previously filed civil action challenging validity
- Civil action filed on or after IPR filing automatically stayed

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CONTEMPORARY ISSUES

Are AIA reviews becoming more Patent Owner friendly?

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- Amendments
- Sovereign Immunity
- Privilege
- Multiple Petitions
- Estoppel

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Amendments

- Patent owner may file 1 motion to amend (may not enlarge scope)
- 95% of motions were denied – under previous *Idle-Free* scheme PO was required to prove patentability of amended claims
- *Aqua Products*
 - “§ 316(e) unambiguously requires the petitioner to prove all propositions of unpatentability, including for amended claims (CAFC 2017, *en banc*)
 - Will new claims be granted without sufficient vetting? Not really?

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Sovereign Immunity

- Allergan and the St. Regis Mohawk Tribe

Diagram illustrating the transaction between Allergan and Saint Regis:

- Allergan provides \$13.75MM to Restasis® (\$1.5B).
- Restasis® (\$1.5B) is provided to Saint Regis.
- Saint Regis provides \$15MM/year to Allergan.

- Substantial Rights Retained?
- Legislative Action? Claire McCaskill's S. 1948

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Privilege

37 CFR § 42.57 Privilege for patent practitioners.

(a) Privileged communications. A communication between a client and a USPTO patent practitioner or a foreign jurisdiction patent practitioner that is reasonably necessary and incident to the scope of the practitioner's authority (Federal Register, Vol. 82, No. 214, November 7, 2017)

CAFC

We therefore recognize a patent-agent privilege extending to communications with non-attorney patent agents when those agents are acting within the agent's authorized practice of law before the Patent Office. (*In re Queen's Univ.*, 820 F.3d 1287)

States

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Multiple Petitions

- 33% of patents face multiple challenges / 5% after PO response
- *General Plastic v. Canon* (PTAB – precedential)
 - No more using PTAB decisions as a road map to find a ground that results in the grant of review. No second bite at the apple.
 - Petitioner must provide proof that it could not have found new prior art earlier.
- NVIDIA factors



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Multiple Proceedings

- PTO may reject petition because the substantially same prior art or arguments were presented to the Office. 35 § 325(d)
- “Informative” Decisions
 - Unified – art cited in 103 during prosecution and amended claims found patentable
 - Hospira – invention preceded 102(a) art cited in prosecution
 - Cultec (TPS) – challenge held to be based on TPS during prosecution

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Estoppel

- “[A]ny ground that petitioner raised or reasonably could have raised”
- PTO (*ex parte* reexamination), ITC, District Court
- *Shaw* (CAFC)
 - Instituted v. noninstituted grounds (no estoppel for noninstituted grounds)
 - Petitioned v. nonpetitioned grounds (reasonably could have raised – some courts estop)
- SAS (cert. granted Supreme Ct.)
 - Whether USPTO should be required in IPR to address all of the challenged claims in a patent in its final decision?

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THE FUTURE

Oil States Services, LLC, v. Greene’s Energy Group, LLC. et al.

SAS Institute, In., v. Matal, Interim Dir., U.S. Patent & Trademark Office

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HUSCH BLACKWELL**Oil States**

- Whether inter partes review ... violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.
- Whether ... amendment process ... BRI ...
- Patent Case – or – Administrative State Case?

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- Does 35 U.S.C. § 318(a), which provides that the Patent Trial and Appeal Board in an inter partes review "shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner," require that Board to issue a final written decision as to every claim challenged by the petitioner, or does it allow that Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner ...?
- 10%-12% of institution decisions are partial decisions with some claims instituted and some claims denied

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Byte Fight: Seeing Both Sides of a Software Licensing Negotiation

By: Kris Kappel and Max Ellenbecker

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Initial Questions for Licensee and Vendor

- Common questions for both parties to consider:
 - What is the nature of the software?
 - Is the software replacing existing software?
 - How will the software be integrated?
 - Will there be required customization/development?
 - What types of data will be used with the software?
 - How will the software and data be hosted?

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Negotiating the License – Term Sheet

- Initial Deal Terms & Framework
 - License type and scope
 - Timeline and schedule
 - Payment terms
 - Hosting details
 - Confidentiality
 - Added services
 - Other key provisions

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- Pre-live and Post-live environments
- Acceptance Criteria
 - Specification/Documentation
- Amount of time to test (30 days)
- Notice of rejection
- Time for vendor to correct deliverable
- Subsequent deliverables
- Final acceptance
- Payment on milestones and/or final acceptance

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HUSCH BLACKWELL**Key Issues – Data Protection & Confidentiality**

- Confidentiality Provisions
 - Mutual
 - Description of confidential information, including data
 - Required time to keep confidential
- Data Protection
 - Data protection warranty
 - Data retention policy
 - Indemnification/remediation for breaches
- Audit reports (SOC2)
- Business Continuity/Disaster Recovery
 - Ability to review and ask for revisions
 - Committed time for recovery of entire system

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- Vendor perspective
 - Software provided “as is”
 - General warranty disclaimer
- Licensee perspective
 - Detailed performance, security and IP warranties
- Typical warranty provisions
 - Performance warranty
 - Non-infringement
 - Virus and malicious code
 - Data breach and security
 - Third-party pass-through
 - Open Source

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- Limitation of liability
 - Common exclusions for special, incidental, indirect, consequential, punitive or exemplary damages
 - Standard liability cap arrangement
 - Super liability cap arrangement
 - Carve-outs for indemnification, confidentiality, data breaches
- Indemnification
 - Commonly tied to warranty breaches
 - IP indemnification, data breaches and confidentiality
 - Remedies

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Key Issues – Service Level Requirements

- Uptime requirements
 - Tied to the critical nature of the software
 - Scheduled downtime for maintenance, updates, patches, etc.
- Response times
 - Fixing errors and unexpected problems
 - Tiered structure based on severity
- Vendor support
 - Training and assistance
 - Increased fees for additional support
- Remedies
 - Service credits

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Legal and Commercial Impacts of Blockchain



By: Bob Bowman

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What Is Blockchain?

- Blockchain is a distributed electronic ledger.
- Notable Names in Blockchain
 - Bitcoin – initial cryptocurrency token and pioneer of blockchain architecture
 - Value hit \$11,000 briefly last week
 - First transaction May 2010, two pizzas for 10,000BTC (\$110 million at high last week).
 - HyperLedger – operating system/development platform for blockchain application.
 - Ethereum
 - Development platform for implementing smart contracts on a blockchain application
 - “Ether” cryptocurrency token

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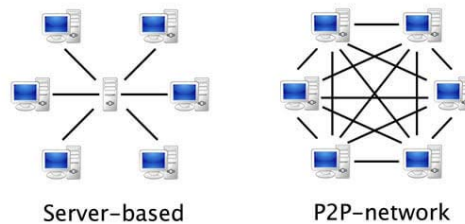
What Is Blockchain?

- Blockchain is a relatively new approach to collecting and sharing data in a digital format:
 - A decentralized network of machines.
 - All machines of the network sync at a given time interval.
 - Consensus mechanisms sometimes implemented
 - Peer to peer connections.
 - Transparent to members.
 - Irreversible.
 - Computational logic compatible.

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Decentralized and Peer To Peer Network



(https://classes.dma.ucla.edu/Fall15/161/projects/chan_c/Desma%20161/Project2.html)

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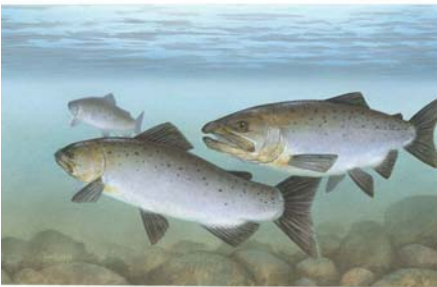
- **Transparent**
 - All members of the blockchain can see contents of each block in chain.
 - Classes of members could have limited transparency
- **Pseudo-Anonymous**
 - Bitcoin utilizes a user address, which is a 33-34 alphanumeric character
 - Anonymity can be controlled based upon the application
- **Irreversible**
 - Implements features to prevent manipulating or changing the data stored in the blockchain.
- **Computational Logic**
 - Executing and triggering automatic actions upon occurrence of a particular input

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Example – Tracking Salmon from Ocean to Plate

Block 1
Action: Caught
Location: Alaska
Species: Salmon
Fish Number: 12
Date: Dec. 3, 2017



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Example – Tracking Salmon from Ocean to Plate

Block 2

- Action: Fillet and Packaging
- Location: Seattle, Washington
- Species: Salmon
- Fish Number: 12
- Date: December 4, 2017
- Hash: CAS121232017 (Hash of Block 1 – Identifying number and first letter of each data point, and date)



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Example – Tracking Salmon from Ocean to Plate

THE “BLOCKCHAIN” – The hash is the chain that permanently links each block to the data of the previous block.

A “Hash” is a data point of fixed sized generated by a algorithmic function.

- Usually an alphanumeric string.
- Changing the underlying data will result in a different hash when running the same hash function.

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Example – Tracking Salmon from Ocean to Plate

Block 3

- Action: Preparation of Portion for Dinner
- Place: Kansas City, MO
- Species: Salmon
- Fish Number 12
- Portion Number: 2
- Date: December 5, 2017
- Hash: FSS121242017 (Hash of Block 2)



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Example – Tracking Salmon from Ocean to Plate

Block 4

- Action: Served Customer
- Place: Kansas City, MO
- Species: Salmon
- Fish Number 12
- Portion Number: 2
- Date: December 5, 2017
- Hash: SKS12-21252017 (Hash of Block 3)



Picture from: <https://authoritynutrition.com/wild-vs-farmed-salmon/>

Customer could request restaurant to show her the Blockchain showing the travel from harvest to plate for the portion of wild-caught pacific salmon to ensure she is getting what was offered.

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Blockchain Applications

- Peer to Peer Financial Transactions
 - “The Blockchain will do to the Financial System What the Internet did to Media” Harvard Business Review, March 9, 2017
- Source Authentication of Raw Materials/Products.
 - Track Merchandise from factory to consumer.
 - Source food from birth/seed to consumption.
 - Source raw materials – gold, diamonds, rare earth metals - upon extraction.
- Monetizing and controlling access to compiled data
- Titles of Real Property and Personal Property.
- Ledger of sensor readings, decisions, and actions initiated by humans, software, hardware or Artificial Intelligence.
- Tokenizing Commerce
- Any application where a transparent and irreversible ledger record is desired.

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Another Application: Smart Contracts

- A fully or partially self-executing contract.
- Software program containing the terms and obligations of the transaction are agreed upon and pre-programmed into the smart contract.
- Actions automatically occur when certain conditions exist or are sensed.
- Automate payments based upon delivery of items
 - Peer to Peer Transaction
 - No invoicing and payment delays

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Another Application: Smart Contracts

- Supply chain example
 - Product needed
 - Call to multiple suppliers
 - Price Negotiation
 - Delivery tracking
 - Automatic payment upon delivery
- All conditions and fulfillment of conditions of the transaction are recorded

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Important Data Security Features

- Access limited to authorized and authenticated members.
- All actions by authorized members are recorded in the Blockchain (permanent 'paper trail')
- Real-time data collection, time stamp, and storage
- Virtually "hack-proof"

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Data Ownership and Usage Controls

- The data is transparent but who controls access and usage of data stored in the blockchain?
 - The access rights of the blockchain can be controlled through initial set-up, configurations and user agreements.
 - Collection of data in real time – limits can be placed on who can view the blocks.
 - Contract language is critical
 - Data licenses, confidentiality obligations
 - Limitation of liability? Indemnification?

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Impact on Legal Exposure

- Litigation risk exists in commercial transactions
- Exposure can be reduced through block chain
 - Responsibilities defined
 - Actions recorded
 - Transparency shows exactly where the error took place.
 - Data authentication structure of the blockchain virtually eliminates potential for false information to be added to the block chain by one member to cover themselves
- Admissibility of blockchain records
 - Current admissibility is not determined, but has characteristics for self-authenticating documents – time stamp and almost certain authentication.

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Slide 82

- I1 In most places, it's blockchain, but I see two places where it says block chain
IT, 11/30/2017

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Risk Mitigation Implementing Blockchain

- Public (Open Source) vs. private/proprietary blockchain platforms
 - Who stands behind the platform/application if something goes wrong?

- Suggest reviewing warranty provisions of blockchain application providers and the underlying platform terms of use.

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Questions?

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Trade Secrets

*Case Issues From the Plaintiff's and
Defendant's Perspective*

By: Patrick Kuehl and Mike Annis

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Trade Secret Protection

- Common Law
- Uniform Trade Secrets Act (UTSA) – Most states
- Defend Trade Secrets Act (DTSA)

- Differences will impact litigation strategy
(definitions, statute of limitations, remedies)
- Common Elements
 - Trade Secret
 - Misappropriation
 - Causation and Damages

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HUSCH BLACKWELL**What Constitutes a “Trade Secret”?**

Uniform Trade Secrets Act (UTSA) and DTSA:

- **information**, including formula, compilation, program, pattern, method, device, process, technique;
- that derives **independent economic value from not being generally known or readily ascertainable** by proper means by others who can obtain economic value from its disclosure; and
- is the **subject of reasonable efforts under the circumstances to maintain its secrecy**.

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HUSCH BLACKWELL**Defend Trade Secrets Act (DTSA)**

- Federal cause of action for Trade Secret misappropriation
 - Creates national definition of trade secret and misappropriation
 - Provides uniform discovery process
 - Enhanced remedies
- State remedies are not preempted
 - Supplemental jurisdiction

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The Promises of DTSA

- The Act provides expanded remedies
 - Ability to obtain nationwide injunctive relief for actual or threatened misappropriation
 - *Ex parte* seizure in extraordinary circumstances
 - Punitive damages (limited to 2x actuals)
 - Attorneys fees (both ways - bad faith assertion)
- Ability to enforce against foreign actors

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From the Plaintiff's Perspective:

Identify What Was Taken

- Stop the Leak
- Is it a Trade Secret (Case by Case Basis)
 - What is the information
 - Extent known outside the business
 - Extent known by employees
 - Safeguards to protect the information
 - Value of the information
 - Effort creating the information

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Trade Secret?

- Probably
 - Customer and Vendor Information
 - Financial Information
 - Technical Data
 - Source Code
 - Product Specifications
 - Business Plans
- Probably Not
 - General Industry Knowledge or Skill
 - Training

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From the Plaintiff's Perspective:

- Whether or not a Trade Secret – some states protect confidential information
- Identify and Preserve Evidence
 - Who
 - What
 - How
 - When
- Remedy – What Can You Do?

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Plaintiff's Objective

- Put the Horse Back in the Barn
 - Injunction
 - Ex Parte Order
 - Preliminary Relief
 - Court may prevent actual or threatened misappropriation so long as it does not prevent a person from entering an employment relationship
 - Money Damages
 - Actual damages
 - Reasonable royalty

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Plaintiff's Objective

- Attorneys' fees – Punitive Damages
- Send a Message
- Cost Benefit
- Jurisdiction
 - State vs federal court
 - What law
- Preserve, Gather, Review ESI
- Happy Filing

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Lessons

Perhaps Most Important - Prevention

- Protect Trade Secrets and Confidential Information
- Technology Safeguards
 - Passwords
 - Key Fobs
 - Logs
- Agreements
 - NDAs
 - Non-Competes

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Relevant Factors – Did You:

- Require employees to sign confidentiality or other restrictive agreements
- Limit access to need to know basis
- Share the information with third parties - confidentiality agreements?
- Store the information under lock and key, physically and/or electronically
- Clearly communicate to employees that the information was to be kept confidential and policies regarding how to treat the information
- Act reasonably to prevent and prosecute the wrongful use of its confidential information

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HUSCH BLACKWELL**Prevention**

- Advise Employees of Whistleblower Immunity under the DTSA
 - Important in order to seek attorneys' fees and enhanced damages later

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HUSCH BLACKWELL**From the Defendant's Perspective:****Act fast**

- To avoid fire drill, don't wait too long to call your attorney
 - Counsel will need to learn what you know fast
 - Early notice reduces risk of errors
- Conduct a comprehensive investigation ASAP
 - Interview parties, key witnesses and gather documents
 - Consider using outside forensics experts
 - e.g. SpearTip

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HUSCH BLACKWELL**From the Defendant's Perspective:****Determine proper jurisdiction and venue ASAP,
as it can be case dispositive**

- Courts leaning on law developed under UTSA's
- Circuit Law Splits on preliminary injunctive relief
 - 8th Circuit (Missouri, Nebraska, Iowa, Arkansas)
 - Likelihood of success = strong showing, more likely than not
 - No presumption of irreparable harm
 - 7th Circuit (Illinois, Indiana, Wisconsin)
 - Likelihood of success = “more than negligible”
 - Presumes irreparable harm in certain circumstances
 - Also home of the inevitable disclosure doctrine

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HUSCH BLACKWELL**From the Defendant's Perspective:****Once you are in suit, force the Plaintiff to detail
the allegedly misappropriated trade secret(s)
as early as possible**

- At pleadings stage?
- Before Plaintiff does any discovery?
 - California Rule - Cal. Civ. Code §2019.210
- Before court addresses any request for preliminary injunction?
- This gets the Plaintiff committed to what is at issue and allows you to attack “secret” nature of information or navigate around it

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From the Defendant's Perspective:

Cases are usually won or lost at PI

- Importance of response planning and early involvement of outside counsel
- Essentially, a condensed, expedited trial
- Determination of likelihood of success on merits and PI requirements translates into
 - Prevention of continued access to and use of the TS
 - High probability of settlement

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From the Defendant's Perspective:

Mechanics of defense – paths to consider

- Is the information at issue a Trade Secret?
 - Generally known to the relevant public
 - Not subject to reasonable means to protect secrecy
- Did you acquire it by legitimate means?
 - Reverse engineering

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HUSCH BLACKWELL**From the Defendant's Perspective:****Don't forget the attorneys' fees provisions**

- Case brought in "bad faith"
 - "Lacks proof as to one of its essential elements"
 - Plaintiff's attempt to convert a non-disclosure covenant into a *de facto* non-compete agreement
 - Inability/refusal of plaintiff to identify trade secret
 - Anticompetitive intent
 - Continued litigation in face of obvious shortcomings

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HUSCH BLACKWELL**From the Defendant's Perspective:****An ounce of prevention....**

- Have an employee up-take protocol
 - Interview – stress they are not to bring or use former employer's confidential information
 - Q: Are you subject to non-compete/non-solicit?
 - » If so, address with counsel
 - Offer letter – outline duties, instruct that they not bring or use
 - "We do not want it, if you bring it you may be fired"

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