

# Q&A

## INTELLECTUAL PROPERTY LITIGATION



# Q&A

## QUESTIONS AND ANSWERS

### INTELLECTUAL PROPERTY LITIGATION

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# INTELLECTUAL PROPERTY LITIGATION

## IP LITIGATION OVERVIEW

### What is intellectual property litigation?

Intellectual property (“IP”) is a broad term describing legal rights in property such as inventions, trademarks, information, designs, images, or the expression of ideas or concepts. These rights generally give you the ability to prevent others from using your property without compensation.

For intellectual property to have any value, therefore, a mechanism is required to force others to do (or stop doing) something and to pay monetary damages for any unauthorized use. IP litigation is that mechanism, and it has become one of the primary legal tools available to promote or defend a business.

### What are the types of IP litigation?

IP litigation includes litigation relating to:

- Patent rights (including design patent rights);
- Trademark rights (including trade dress rights);
- Trade secret rights;
- Copyrights;
- Unfair competition or deceptive advertising;
- Contract rights (particularly technology-related contracts such as license, development, or high-tech employment and non-competition agreements); and
- Antitrust violations.

These suits are typically filed in federal district court, although in some cases they may be brought in state court or before the International Trade Commission (to prevent the importation of infringing products).

Contested matters can also be heard before the U.S. Patent and Trademark Office (USPTO) in the form of “post-grant review” (to challenge the validity, enforceability, and other aspects of issued patents), “*inter partes* review” (to challenge the validity of an issued patent), “patent interferences” (to resolve disputes over competing claims of inventorship) and “opposition and cancellation proceedings” (to resolve

disputes over the registration of trademarks). For further information on post grant proceedings, see our booklet *Q&A on Post Grant Proceedings*.

### Why has IP litigation increased so much in recent years?

**High stakes.** IP litigation is often a “bet-the-company” case. If an owner of IP rights wins, the result can be an “injunction,” or court order, barring further sales including, in some cases, a company’s flagship product. A court order to pay monetary damages can also severely damage a company or drive it out of business.

**Intellectual property as lifeblood.** The recent growth also reflects the rise of businesses and business models based on IP, which is the lifeblood of today’s economy. Many businesses are started with, and defined by, an idea such as a business model or a technological product. Others specifically target acquisition of trademark rights—for example, a company business plan may call for creating name recognition on the Internet. As IP becomes the defining aspect of a business enterprise, the likelihood of copying, and the importance of preventing copying, both grow.

**Revenue generation.** If a company has IP holdings in fields of technology that have large commercial applications, IP litigation can produce significant revenue in the form of royalties paid by others for use of that IP.

**Likelihood of success.** Another factor is the increased likelihood of success. The U.S. Court of Appeals for the Federal Circuit (usually referred to as the “Federal Circuit” or “CAFC”) was established in 1982 to decide, among other things, all patent cases. Before 1982, patents were much harder to enforce in court (for example, some appellate courts were reluctant to uphold the validity of patents).

The Federal Circuit has given patents real teeth. As reputation and attention to IP litigation has increased, the corresponding willingness to sue has grown among businesses that rely on technology and inventions, as well as among businesses that seek to protect their brands and images. The result is a growing appreciation of an IP lawsuit as a business tool. IP litigation is different from many other types of litigation because it is focused on the ability to define business markets (e.g., exclusive rights to sell a

certain kind of product). Therefore, the enforcement of IP rights has become an important tool in defining, preserving, and promoting a company's business plan.

### **Are there other reasons companies bring a suit?**

At times, IP litigation is used as a different, more questionable sort of business tool; namely, to interfere with a competitor's ability to raise money. Underwriters of public offerings, for example, are known to shy away from companies embroiled in risky disputes over the rights to key products. The same is true of prospective investors. Sometimes, the key to being successful in IP litigation is knowing how to avoid it, or at least steer it into a favorable forum.

### **What do I need to know about IP litigation?**

Typically, people want to know how to react to an accusation of infringement, whether they have a case, and what is involved in being a party to litigation. The answers to these questions typically depend on the type of IP involved—patent, trade secret, copyright or trademark, which are discussed in more detail below.

## **PATENT LITIGATION**

### **What is a patent?**

Utility patents cover any new, useful, and non-obvious invention. Design patents protect the appearance or ornamentality of a product. Utility patents, with certain exceptions, have a term of 20 years from the filing date, and design patents have a term of 14 years from the date the patent is issued by the USPTO. For a more in-depth look at patents, see our booklet *Q&A on Patents*.

### **What is patent litigation?**

Patent litigation involves a claim that another's product or method falls within the scope of (or "infringes") a patent issued by the USPTO. A winning patent owner, who directly competes with a defendant typically can obtain a court order barring further infringement and awarding monetary damages.

The Supreme Court recently made it more difficult for patent owners that do not directly compete with the targets of their suits to obtain court orders barring infringement. Instead, reasonable compensation is sometimes determined, in lieu of an injunction, for unauthorized use of an invention in such circumstances.

### **How do I know if someone may be infringing my patent rights?**

Often, companies quickly become aware when a competitor may be infringing one of their patents because the competitor's product or process is very similar to the company's product or process. Periodic searching of patent databases can also provide an early signal that new companies are entering a technology area.

### **How do I determine whether a patent is infringed?**

There are three steps involved:

- Discovering the details of the accused activity;
- Studying the claims of the patent; and
- Comparing the accused activity to the patent claims.

In some cases, the first step is easy. For example, to learn about a mechanical device being sold to the public, you may simply purchase and examine it. In addition, useful information can also be found in advertising materials, on web sites, and in patents owned by the suspected company.

In other cases, more investigation is required, such as when the patent covers a particular manufacturing process that is used in secret to make a product.

Care must be taken when you are investigating a possible infringement, however, so as to not violate any of the competitor's rights. For example, you may not induce a competitor's employees or its customers to violate a confidentiality agreement.

Assessing whether an accused activity infringes requires the right expertise. In general terms, a patent's scope is defined by the limitations of its "claims," which are listed at the end of the patent. If any one claim is infringed, the patent as a whole is infringed. To literally infringe a claim, each and every limitation of the claim must be met. The analysis proceeds word-by-word or clause-by-clause to see if each is found in an accused device or process.

For a simple example, consider a patent that describes a typical four-legged dining room chair and has a claim for:

1. (a) a sitting device, comprising:
  - (b) a substantially planar surface to support a person; and
  - (c) at least three legs, each coupled to the surface, to support the surface.

You will note that this claim does not recite the back of the chair or four legs. Nonetheless, it still covers a chair with a back and four legs. This is because of the use of the term “comprising” which means “including but not limited to.” Therefore, a stool with three legs would likely infringe, even though its appearance (no back, three legs) is different from that of a dining room chair which has a back and four legs. The stool (a) is a sitting device, (b) has a flat top surface that can support a person and (c) has at least three legs, connected to the bottom of the flat top surface, to support it. A bean bag chair or a large cylinder, however, likely would not be found to infringe—neither has “at least three legs.”

When a claim limitation is not met literally, a patent owner may have a second chance to prove infringement (depending on the prosecution history of the patent) by asserting the “doctrine of equivalents.” Here, the patent owner would argue that the accused product or process is so close to meeting the literal language of a claim that it would be unreasonable to find no infringement. In other words, the patent owner would assert that it performs substantially the same function in substantially the same way to achieve substantially the same result.

In our example above, if a chair had three legs coupled to a post, or platform, which was coupled to the sitting surface, it might be argued that such a chair infringes the hypothetical patent claim described above under the doctrine of equivalents.

#### **Whom can I sue for infringement of my patent?**

A patent conveys the right to prevent others from making, using, selling, offering for sale, or importing inventions covered by the patent in (or into) the U.S. (including its territories). Therefore, a company infringes if it makes goods in the U.S. that are covered by a patent, even if the goods are only sold and used overseas.

Similarly, a company that uses an infringing article in the U.S. is an infringer, even if the product was bought or leased from a third party and even if the product was made abroad.

Finally, a company that sells in the U.S. a product that was made abroad by a process patented in the U.S. may be an infringer of that patented process. The result is a variety of potential litigation targets including the manufacturer, any distributor, any retailer, any company that purchases and uses a patented product—even an individual who uses a patented item.

In addition, a party can be held responsible for acts of infringement by others. In that case, the infringer can be

charged with “indirect” infringement, which comes in two forms: “inducement to infringe” and “contributory infringement.” One “induces” infringement by committing acts intended to cause someone else to infringe. For example, one could “induce” infringement by providing materials and instructions to consumers that cause them to infringe a patent.

One “contributes” to infringement by selling goods or services whose only substantial use is an infringement. For example, one can be held liable for selling chemicals that have no practical use other than in an infringing process. On the other hand, an accused infringer would not be held liable for contributory infringement for selling a chemical that can be used in either an infringing or noninfringing manner, even if the accused infringer knows the chemical will be used by a particular customer in an infringing way.

However, if the accused infringer specifically helps in the use of the chemical in an infringing way, such as by providing instructions, it may still be liable for “inducing” infringement.

A variety of concerns impact the selection of whom (if anyone) to sue. There are questions of legal strategy, such as the effect the choice has on where the suit may be brought, or on the types of damages available. Where there are multiple infringers, a smaller company is sometimes chosen in the hope of a quick or easy initial victory to build a war chest and establish a pattern of success. Other business concerns also impact the choice of infringers; for example, many companies feel it is unwise to sue existing or potential customers.

#### **Should I contact someone I think is infringing my patent?**

If you believe someone is infringing your patent, the natural instinct is to contact them. The least expensive way to resolve a dispute may be to persuade the infringer to either stop infringing or pay for a license.

Giving notice can sometimes be important, particularly if the patent owner sells goods that are covered by a patent but not marked with the patent number. In that case, the patent owner may not be able to recover damages for infringement until actual notice is provided.

Contacting a potential infringer, however, involves some risk. An accused infringer can use a letter charging infringement as a basis for filing a “declaratory judgment” action, sometimes referred to as a “DJ” action. In a DJ suit, the plaintiff (potential infringer) seeks a declaration that the

patent is invalid or not infringed. Not only does this begin a potentially expensive litigation process, but the suit will almost certainly be filed in a location more favorable to the accused infringer. In addition, if contact is made but there is substantial delay in following up, as the patent owner, you can lose certain important rights should you later try to assert the patent against the alleged infringer.

Before choosing how to respond, it is advisable to consult experienced patent litigation counsel.

### **If I think someone is infringing my patent, what should I do?**

Patent owners do far better when a litigation strategy is based on sound, up-front analysis. Such a careful analysis can result in avoidance of an ill-advised, expensive lawsuit. To develop an intelligent strategy, the following analysis is essential.

**Step One.** Study the patent and prosecution history (i.e., history of communications with the USPTO) to understand the meaning of the claim limitations.

**Step Two.** Assess the strength of the case for infringement by comparing the elements of the suspected product or process to the properly-construed limitations set forth in the patent claims.

**Step Three.** Assess available defenses, such as invalidity of the patent. To do this, you must review the patent, its prosecution history, and the relevant “prior art,” referring to patents, articles, or other publications predating the patent’s priority date.

**Step Four.** Estimate any potential damages based on the magnitude of infringing sales and the type and extent of injury, such as lost profits or a reasonable royalty. Take into account the competitive value of an injunction barring future sales of the infringing product. Also consider the intangible effects that a lawsuit may produce, which can be both positive (e.g., the value of sending a message to others who may be considering entering the market by infringing the patent) and negative (e.g., the risk that the accused infringer will file counterclaims based on infringement of its own patents, antitrust violations, or other possible grounds).

**Step Five.** Finally, obtain intelligence about the infringer, including its resources, its past litigation practices (if any), the possibility of a counterclaim, and the relative costs and benefits (to both parties) of litigation.

### **How do I know if I am at risk of being sued for patent infringement?**

Assessing the likelihood of being sued can be complex and may require searches for and analysis of patents related to the existing or proposed product or process (comparable to the due diligence conducted when one company acquires another).

### **If I receive a letter accusing my company of infringement, what should I do?**

Once you are notified (or otherwise become aware) of a patent, you should take several steps to ensure that you are not infringing a valid and enforceable patent. If you are found to infringe in bad faith, you may be liable for double or triple damages and/or the attorneys’ fees incurred by the patentee in enforcing the patent. Consequently, a company or person that receives a letter accusing it of infringement should contact qualified patent counsel immediately.

As noted above, the accusatory letter may also create the possibility of filing a declaratory judgment action before responding. Declaratory judgment lawsuits are a mechanism to “clear the air,” and are brought by one accused of patent infringement against the patent owner to determine whether the patent is valid or infringed. Such actions can allow the accused party to secure a favorable forum for litigation, which can provide a negotiating advantage.

### **How do I know if I have been sued and what do I do?**

In many cases, a patent owner will file a complaint, but wait to serve it. In fact, sometimes a patent owner will file a lawsuit, contact an alleged infringer and negotiate with the alleged infringer for months—all without serving the alleged infringer with the complaint or even telling the alleged infringer about it.

Database searches are available to check whether a federal court lawsuit has been initiated. Similarly, electronic watch services can notify companies automatically when they are sued in federal court.

### **Where will the litigation be?**

A patent lawsuit may be filed in a federal district court in any state that has jurisdiction over the infringer. Infringers generally can be sued wherever the infringer is incorporated, or has a regular and established place of business, and is making, using, or selling the accused products or methods. There are also proceedings before the International Trade Commission that can be used to stop the importation of infringing products.

### **How long will litigation take?**

The length of time a patent litigation can take depends primarily on the court (or judge) that has responsibility for the case, the complexity of the case, the goals and motivations of the parties, and the behavior of the parties. In some jurisdictions, a lawsuit will be concluded in 12 to 18 months; in other jurisdictions, it can take several years or more. Of course, many cases are resolved earlier by settlement.

### **What will litigation cost?**

Costs can be difficult to estimate in advance. The cost of a patent litigation is usually affected by the same factors that affect its length. In addition, many cases may be resolved before trial, either by settlement or by entry of summary judgment, if the judge believes there are no material factual issues in dispute.

Because of these factors, a patent case can cost very little (if settled early) or as much as several million dollars (if tried to verdict). According to the most recent trade organization survey (compiling data on litigation costs for the year 2011), the average cost of patent litigation, where \$1-25M was at risk, ranged from \$1.6M (through the end of discovery) to \$2.8M (through trial), with cases in the third quartile costing \$4M (through trial). In cases with more than \$25M at risk, the average costs ranged from \$3.6M (through the end of discovery) to \$6M (through trial), with cases in the third quartile costing \$7.5M (through trial).

### **How much will a lawsuit interfere with company business?**

Patent litigation is always disruptive for both the patent owner and the accused infringer. The costs can be high, including time spent by engineers and management. The distraction can be significant. There may also be an impact in the marketplace or among investors, based on publicity associated with the suit.

### **Is patent litigation worth it?**

The answer, of course, depends on the case. The advantages include the possibility of a permanent injunction (i.e., a legal monopoly until the patent expires). The damages recovered can also be large. For example, there have been some patent cases that resulted in billion-dollar verdicts. The impact on a competitor in the marketplace can be significant, affecting the competitor's morale, personnel, investors, and customer base. The attendant risks can also be significant, however, in terms of cost, possible counterclaims, business disruption, and the possible loss of a patent due to its invalidation.

## **PATENT INTERFERENCE**

### **What is an interference?**

An interference is a proceeding in the USPTO before Administrative Patent Judges (APJ) at the Board of Patent Appeals and Interferences (Board) to determine priority of invention when two or more parties claim the same patentable invention.

### **What patent applications can be subject to an interference?**

Historically, patents in the U.S. have been awarded on a first to invent basis. However, recent legislation (America Invents Act, "AIA") has changed that. For applications filed on or after March 16, 2013 that are not entitled to claim priority to an application filed prior to that date, patents are awarded on a first to file basis. Those patents cannot be subject to an interference. However, the AIA provides for various other forms of post grant proceedings to challenge an issued patent. For a detailed look at these proceedings, see our booklet *Q&A on Post Grant Proceedings*.

For patent applications filed before March 16, 2013 (or which claim priority to a pre March 16 application), an interference can be used to determine which party is entitled to a patent when more than one party claims the same invention. The interference is fought over a claim or claims representing the commonly claimed invention. An interference must involve at least one pending application, but can include issued patents. In other words, a party with a pending application can drag an issued patent back into the USPTO and into an interference proceeding to determine who is entitled to a patent on the invention.

### **What does it mean to be the "first to invent"?**

Invention consists of two steps: "conception" and "reduction to practice." Conception is the formulation in the mind of the inventor of a definite and permanent idea of the complete and operative invention. To be a true conception, it must be sufficiently complete to allow "one of ordinary skill in the art" to make the invention.

Reduction to practice is the act of actually making the invention and testing it to demonstrate that it works for its intended purpose. For example, reduction to practice could involve laboratory testing of a prototype.

There is also something called a "constructive reduction to practice," which is the filing of a patent application covering the invention. A party is the first to invent if it conceives

and reduces to practice an invention before the other party, whether it be an actual or a constructive reduction to practice.

Sometimes, however, a party will conceive the invention first but reduce it to practice after the other party. The party who conceives first but later reduces to practice will still be found to be the first inventor if it can show that it worked diligently on the invention from a time prior to the other party's later conception until its invention is reduced to practice.

### **What are the phases of an interference?**

An interference typically has two phases: a preliminary motions phase and a priority phase. In the motions phase, the parties are permitted to attack each other's claims for patentability over the prior art or for lack of compliance with other provisions of the patent statute.

The parties are also permitted to file motions arguing that there should not be any interference at all because the parties are claiming different inventions, or because the other party does not comply with the necessary statutory requirements to allow it to participate in the interference. Either party can also ask the Board to amend the claims that are the focus of the proceeding, or argue that additional claims of the other party should be dragged into the interference, or ask that its own claims should not be involved in the interference.

Should the interference survive the motions phase, it moves to the priority phase where both parties submit evidence directed to the earliest invention date. This evidence is usually supported by affidavits and can result in depositions being taken. After a review of the evidence and oral argument, the Board determines who is the first to invent. The losing party may appeal to the Federal Circuit, or may institute a civil action in a U.S. district court challenging the findings of the Board.

### **Why would I want to be involved in an interference?**

If two different inventors are claiming to have invented the same invention, sometimes an interference is the only vehicle for determining who should get a patent. If you have a pending application that is rejected over another application, or an issued patent that claims the same invention, the only way to get your patent is through an interference.

An interference may also be useful for attacking or invalidating a competitor's pending application or issued patent that blocks you from commercializing your technology. It is

much easier to invalidate a patent in an interference than in patent infringement litigation in court.

In court, there is a presumption the patent is valid, and the patent can only be invalidated by "clear and convincing evidence". In an interference, there is no such presumption. The showing needed to invalidate the patent is much less: "preponderance of the evidence". Also, the Board's judges generally have technical training and are more knowledgeable about patent law than federal district court judges.

Finally, the existence—or even threat—of an interference may provide leverage in negotiations with the other party over rights to the same or even different technology by putting that other party's patent rights at risk.

### **How do I get into an interference?**

The most common way of getting into an interference is to ask the USPTO to declare one. For the Patent Office to declare an interference, you must:

- Demonstrate you have added to your application, or have already had pending in your application, a claim that is substantially the same as a claim in another pending application or issued patent;
- Have this claim pending in your application less than a year after publication of the other application, or less than one year after issuance of the patent;
- Demonstrate that this claim is patentable to you; and
- Demonstrate that you invented the subject matter of the claim prior to the earliest claimed filing date of the other application or patent.

The owner of another pending application can also ask that its application be put into interference with your application or patent. An examiner can also declare an interference on his or her own, but this rarely happens in practice.

### **Are there times when I would want to avoid an interference?**

You would almost certainly want to avoid an interference if it is impossible for you to demonstrate a date of invention earlier than the filing date of another patent or application. You would also want to avoid an interference if you do not have the money to pay for it, since interferences can cost anywhere from \$100,000 to several million dollars and can also be very disruptive.



Where the subject matter at issue has little value to you, an interference may be worth avoiding. For example, if the claim in the patent of your competitor is one that you can easily design around or covers technology that you do not want to commercialize, you may not want to either initiate or get pulled into an interference.

You may also want to avoid an interference if there is a risk that your other valuable applications or patents could be dragged into the interference, because you could lose rights in those applications and patents.

Finally, you may prefer to resolve a dispute over priority in a district court proceeding, which permits an interference between two issued patents, if the USPTO agrees to issue you a patent. In such a proceeding, you have all the procedural and discovery advantages of normal patent litigation.

#### **How do I avoid an interference?**

You can avoid an interference by not claiming the same subject matter as that found in another application or issued patent. If you write your claims in such a way that they are patentably distinct from the claims of another issued patent or application, the USPTO may allow your claims without getting into an interference.

You can also avoid getting into an interference by canceling any claims that might interfere with those in another application or patent. You can work with interference counsel to craft your claims in such a way as to avoid an interference.

#### **When should I consider interference issues?**

To achieve your desired business goals, you should consider potential interference issues and devise a strategy to either provoke an interference or avoid it at the earliest possible opportunity. It would be difficult for you to argue on one hand that your claims are different from the claims in another patent or application at one stage of the prosecution and then later, if you change your mind and want to get into an interference, to argue that the claims are patentably indistinct.

Once you devise your strategy, you should work with your interference counsel to implement that strategy. Your strategy should include being constantly aware of issued patents and published applications of your competitors. If you wish to pursue an interference, you must be sure that:

- You have copied claims from the other application or patent into your application within the one-year statutory period provided;

- You have proper support in the application for your claims; and
- The claims you have introduced provide you with the earliest possible invention date and conform to your best proofs of invention.

## TRADEMARK LITIGATION

### **What is a trademark?**

A trademark is a word or symbol (or a combination of both) used to identify the source of goods. An example of a trademark is TOOTSIE ROLL® for candy. Internet domain names may also contain trademarks. A service mark is a word or symbol (or a combination of both) used to identify the source of services. For convenience, the term “mark” herein will be used to refer both to service marks and trademarks.

Marks can be more than just a name. For example, protection can be obtained for a color (e.g., the color pink for insulation), the shape of a container (e.g., certain perfume bottles), and decor (e.g., the red roof of Pizza Hut®). For a more in-depth look at trademarks, see our booklet *Q&A on Trademarks and Copyrights*.

Unlike in much of the rest of the world, U.S. trademark law is based on the first to make commercial use of a mark, not the first to register it with the appropriate government trademark office. Such ownership may be limited to the particular goods or services on which the mark is used, or “related” goods or services. What is “related” can often be a key issue in trademark litigation.

### **What is the difference between trademark, trade dress, and unfair competition litigation?**

- **Trademark litigation** involves a dispute over whether one party has infringed the other’s trademark rights.
- **Trade dress litigation** involves a dispute over whether the distinctive configuration or packaging of a product has been infringed.
- **Unfair competition** claims, often asserted together with trademark claims, can be made when an infringer attempts to confuse the public as to its affiliation with another company, or attempts to confuse the public as to the source of its products or services.

Internet domain name disputes also are brought under federal trademark and anti-cybersquatting laws. However, arbitration of Internet domain disputes may also be available

under the Uniform Domain Name Dispute Resolution Policy (often referred to as the “UDRP”), under which most trademark-based domain name disputes must be resolved by agreement, court action, or arbitration before a registrar will cancel, suspend, or transfer a domain name.

### **What is the basis of a trademark claim?**

Trademarks are typically classified under U.S. law into five categories of “strength,” from the strongest (“fanciful”) to the weakest (“generic.”) Indicators of a mark’s strength can include its length of use, the amount of advertising and promotion associated with it, the sales made in connection with the mark, and how well the trademark owner has “policed” its mark by stopping infringers. As a general rule, the stronger the mark, the easier it is to obtain protection for it and the easier it is to show infringement.

To win an infringement suit, a trademark owner must first show that it has a protected mark. Then it must show that there is a likelihood of mistake, confusion, or consumer deception by the infringer’s use of a similar mark. The key factors are whether the marks are confusingly similar, and whether they are used on the same or “related” goods or services, including goods or services into which the trademark owner’s business is reasonably likely to expand.

For example, if a strong trademark is used by one party in connection with shoes, and a second entity starts using an identical or very similar mark on boots or as a service mark in connection with shoe repair, infringement is likely to be found.

In determining whether there is a likelihood of confusion, courts may consider several factors, such as:

- Strength of the mark;
- Similarity of marks in sound, meaning or appearance;
- Similarity or relationship of the goods or services;
- Commonality of distribution channels;
- Sophistication of purchasers;
- Fame of the mark;
- Number and nature of similar marks in use on similar goods or services; and
- Evidence of actual confusion.

Infringement is evaluated based on the “totality of the circumstances.” Evidence of actual consumer confusion, however, tends to tip the scales towards a finding of infringement. Survey evidence that demonstrates a mark’s

strength or a likelihood of confusion can also be very important.

### **Does my trademark have to be registered before I sue?**

In the U.S., a trademark registration is not necessary for a lawsuit. It is, however, a valuable tool. Registration gives trademark owners several important rights, including the right to use the symbol “®”, and to have the registration become “incontestable” under federal law after five years of continuous use.

The registrant is also entitled to certain legal presumptions in the event of a dispute in court. First, there is a presumption of nationwide use and protection of the mark (which overcomes any geographic limitations on actual use), as opposed to only limited geographic protection that may result from only using the mark in certain locations.

It is also presumed that the mark is valid, is owned by the registrant, and that all other persons have “constructive notice” of the registrant’s ownership of the mark (so no one can legally claim they were unaware of the trademark).

### **If someone is infringing my mark, should I contact them?**

Identifying infringers and getting them to stop—either by request or, if necessary, through litigation—is an important component of protecting trademark rights and brand image. As with other types of IP litigation, however, an accusation of infringement can result in a declaratory judgment action being filed by the other party in an inconvenient (or inhospitable) forum.

There are other possible risks created by contact. For example, it may turn out that the alleged infringer can show prior use (and rights) in the mark. In that circumstance, the accusation of infringement can be used against the trademark owner as an admission there is a likelihood of confusion in the market, resulting in a finding of invalidity of the trademark owner’s registration and trademark rights.

Contacting an alleged infringer is best done after appropriate investigation and as a part of a considered strategy prepared in coordination with litigation counsel. Since the strength of trademark rights depends on the owner of a mark being the only one using the mark for particular goods or services, failing to enforce a mark can result in loss of rights in that mark. Once again, a well-chosen strategy for protection of a trademark is essential.



### **What are the remedies in a trademark case?**

The most common form of relief sought and granted in a trademark case is an injunction prohibiting further infringement by the infringer. Such an injunction helps protect a company's reputation. Monetary relief may also be available in trademark cases, although proving lost sales can be difficult. Proof of lost sales may require quantifying how many of the infringer's customers were actually confused and, had they not been confused, proving that they would have bought the products or services from the trademark owner instead of the infringer.

Damages can nevertheless be staggering. In one trademark case, for example, damages of \$143M were assessed (although later vacated for other reasons). Other remedies may also be available, such as impoundment and destruction of goods bearing infringing trademarks. Indeed, "John Doe" seizure orders are available, which permit seizure and destruction of counterfeit goods in circumstances where infringers cannot be identified in advance (e.g., counterfeit goods sold at concerts or athletic events).

In Internet domain name cases, courts can order an infringing domain name to be transferred to the rightful trademark owner.

### **How much does trademark litigation cost?**

Like other types of litigation, the cost of trademark litigation varies substantially based on the case and the opposing party.

According to the most recent trade organization survey compiling litigation costs for the year 2011, the cost of litigation where \$1-25M was at risk, ranged from \$600,000 (through the end of discovery) to \$1M (through trial), with cases in the third quartile costing \$1.4M (through trial). In cases with more than \$25M at risk, the average costs ranged from \$1.2M (through the end of discovery) to \$2.2M (through trial), with cases in the third quartile costing \$3M (through trial). Most trademark litigation matters, however, are settled at a much earlier stage and at far lower cost.

Although trademark litigation, like any other lawsuit, can be disruptive, the disruption of technical personnel tends to be less than in patent or trade secret litigation.

### **Is trademark litigation worth it?**

Marks represent the ability to turn a successful business image into equity—e.g., by building brand value. The only way to preserve that equity is to defend trademark rights. If

others are permitted to infringe the mark, the mark loses its value, and the owner may lose its ability to enforce its rights in the mark. Litigation over marks, as with other types of IP, therefore, protects business assets.

Often, the heart of the battle over rights occurs at a very early stage, when the trademark owner seeks a preliminary injunction against the alleged infringer. A quick victory then forces the infringer to change its trademark usage during the pendency of the case. This can pave the way to settlement, as the infringer is unlikely to fight a lengthy battle for the right to go back to using a mark it already has dropped. Accordingly, it may be cost-effective to bring a trademark case to the preliminary injunction stage, even in cases in which full-scale litigation of the dispute through trial might not be cost effective.

## **TRADE SECRET LITIGATION**

### **What is a trade secret?**

Generally, a trade secret is any information that derives value from not being publicly known or readily ascertainable by a competitor (by proper means), and that a party uses reasonable efforts to keep secret. Examples include information such as:

- Customer lists;
- Marketing plans;
- Terms of agreements with customers;
- Terms for suppliers;
- Technical information such as product design information (including information about what designs did not work);
- Technical data about product performance;
- Manufacturing methods and processes; or
- Chemical formulas.

### **What is trade secret litigation?**

Trade secret litigation typically involves a claim that a party is using trade secrets or confidential information in violation of some duty owed to the owner of those trade secrets. The scope and nature of trade secret protection can vary from state to state.

### **What types of trade secret cases get litigated?**

Although disputes sometimes arise based on "theft" of trade secrets through industrial espionage, most trade

secret cases are between two parties that had a pre-existing relationship. The accused thief obtained the information honestly, but is accused of using the information in violation of a duty to the owner.

The most frequent cases involve a non-disclosure agreement between two companies (e.g., based on a supplier relationship, joint development agreement, or due diligence investigation), or a concern that a former employee will improperly disclose or use trade secret information.

#### **How is the strength of a trade secret case assessed?**

The first inquiry is into the nature of the asserted misuse of information: was it in violation of a contract or other duty? This inquiry includes an investigation of why one party believes the other is using its trade secrets, and what duty or agreement existed between the parties. The second inquiry goes to the trade secrets themselves. As a general rule, trade secrets must be identified with a fair degree of specificity—something more than general know-how.

Once trade secrets are identified, their strength can be assessed in terms of specific value, whether reasonable efforts have been made to keep them secret, and whether they are in fact secret rather than being publicly known.

As with other types of litigation analyses, an assessment of a trade secret case must also include an assessment of how sympathetic the parties will appear to a judge or jury, an analysis of the alleged thief and its likely litigation posture, and the possibility of a counterclaim.

#### **What are the remedies in trade secret litigation?**

Injunctions preventing future use of a trade secret are often granted. An injunction may prevent sales of a product forever or for a duration equivalent to the amount of time required to produce an equivalent product. Monetary damages are also available, and they can be measured in several ways: actual damage to the owner (e.g., the owner's lost profits) or the amount by which the alleged thief unjustly benefited from the misappropriation (e.g., its profits). In some cases, damages may be doubled and attorneys' fees awarded if the misappropriation was extreme.

#### **Do I need to make any filing with the government before suing?**

No. Unlike patents, copyrights, and trademarks, there is no registration required. Indeed, such public disclosures would be inconsistent with the principle that trade secrets must be kept secret.

#### **Do I have to disclose my trade secrets in order to sue?**

Most trade secret (and other technology) cases are litigated under a protective order prohibiting use of designated confidential information for any purpose other than in the litigation. These orders also typically limit access to certain designated trade secrets or other highly sensitive materials to outside counsel and experts, although specified individuals within the opposing company may sometimes be allowed access to these materials (subject to the order to use the information only in the litigation).

Typically, protective orders may allow for the filing of certain materials with the court under seal. Notwithstanding these protections, however, there is always a risk of inadvertent disclosure or undetected improper use.

#### **What are the costs of trade secret litigation?**

According to the most recent industry survey compiling litigation costs for the year 2011, in cases with \$1-25M at risk, the average cost of a trade secret case ranged from \$900,000 (through the end of discovery) to \$1.6M (through trial), with cases in the third quartile costing \$2.3M (through trial). In cases with more than \$25M at risk, the average costs ranged from \$1.9M (through the end of discovery) to \$3.2M (through trial), with cases in the third quartile costing \$4.8M (through trial).

As with any technology-related litigation, there can also be significant intangible costs such as diversion of attention and resources.

## **COPYRIGHT LITIGATION**

#### **What is a copyright?**

A copyright is a set of exclusive rights protecting the following: literary works, music, dramatic works, motion pictures, choreography, pictorial works, sculpture, audiovisual sound recordings, software, and architecture. These rights include the right to prevent others from copying, displaying, distributing, or performing the copyrighted work.

Copyright law does not protect ideas, facts, procedures, processes, systems, or methods of operation. To protect any invention or discovery embodied in a copyrighted work, one must turn to patent law. For a more in-depth look at copyrights, see our booklet *Q&A on Trademarks and Copyrights*.

## What is copyright litigation?

Copyright litigation is a dispute where one party asserts that another copied from a protected work without permission, or otherwise violated one of the copyright owner's exclusive rights.

## Who owns a copyright?

Generally, the author of a work owns the copyright from the moment the work is put down onto paper or onto some other "tangible medium of expression" (such as a computer disk). In some cases, determining ownership can be complicated. For example, a work created by an employee as part of an employment agreement will generally belong to the employer.

A "work made for hire" by an independent contractor can belong to the employer as well, but only if a written contract so provides. Software development companies unaware of this rule have been surprised to learn they did not necessarily own software developed for them by an independent contractor, even if they paid the contractor to develop it.

## What types of copyright cases typically get litigated?

Any copying of a protected work can result in litigation. Thus, copyright litigation can arise from a claim of plagiarism, songs or advertising materials that are copied, or a photograph incorporated into another's work without permission. In the technology context, copyright disputes often arise from copying of software or Internet web sites.

## What does someone have to prove to show copyrights were infringed?

To prove infringement, the copyright owner must show:

- Actual copying took place, and
- The copying was *impermissible*, resulting in "substantially similar" expression in the work.

For the first prong, an owner typically shows that the infringer had access to the work and produced a similar work that would allow a judge or jury to infer that the infringer copied the work.

The most difficult piece of the analysis is whether the copying was impermissible. The copying must involve substantial taking. Copying of a small quantity, such as a single sentence, however, can be "substantial" if the copied material is sufficiently significant in context. The difficulty in proving impermissible copying varies. When

an identical copy of one's entire work is made, such as copying a software program or photocopying an article, the infringer has infringed unless his/her conduct falls under the "fair use" exception, which typically involves education, commentary, criticism, or parody. When an identical copy is not made, the issue can become more complicated. Since a copyright protects only expression and not underlying ideas, methods, or processes, similarity of ideas alone will not establish impermissible copying. There must be "substantial similarity" in the expression.

Copying need not be verbatim or literal. Copyright also extends to "nonliteral" aspects of a work, such as the plot or characters of a story. The process of separating unprotected ideas from protected nonliteral aspects of a work can be difficult and frequently requires a sophisticated analysis. Allegations of nonliteral copying of software can require very sophisticated technical as well as legal analysis.

## If someone copied from me, can I sue?

Before a suit may be filed, you must first apply for and receive a copyright registration from the U.S. Copyright Office. Although you can wait until you learn of an infringement before filing for registration, earlier registration allows for enhanced remedies, including statutory damages and the possibility of recovering attorneys' fees.

## What are the remedies for copyright infringement?

As with other forms of IP, injunctions barring further infringement, as well as orders for seizure, impoundment, and destruction of infringing goods, are possible. For damages, a copyright owner can claim the amount of its own lost profits, the infringer's profits, or a reasonable royalty. For works registered with the U.S. Copyright Office within three months of publication, or before the infringement began, the owner can opt for statutory damages, which can range from \$750 to \$30,000 per infringed copyrighted work. Where the infringement was willful, that amount may be increased to \$150,000. Recovery of attorneys' fees may also be possible.

## How much does copyright litigation cost?

As with all other litigation, cost depends on the specifics of the case, and many copyright cases are settled or decided without a trial. According to the most recent survey conducted by a trade organization (compiling litigation costs for 2011), the average cost for a copyright case with \$1-25M at risk ranged from \$500,000 (through the end of discovery) to \$900,000 (through trial), with cases in the third quartile costing \$1.3M (through trial). In cases with more than \$25M at risk, the average costs ranged from \$1.2M



(through the end of discovery) to \$2M (through trial), with cases in the third quartile costing \$2.9M (through trial).

**Is copyright litigation worth it?**

Again, the answer depends on the case. If a competitor copies a work registered before infringement began, the benefits are clearer. These cases usually settle quickly because of the availability of statutory damages. In close cases, or

cases in which statutory damages are unavailable and actual damages are hard to prove, the benefits are less clear. It can certainly be of significant value to a business to stop others from improperly copying, distributing, or using its proprietary software or other original works.



