WEBINAR

IP Issues Impacting Business Transactions

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WEBINAR

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Developments in 2018

- (trademark) Mission Product Holdings v. Tempnology (bankruptcy and 365(n))
- (patent) Helsinn Healthcare v. Teva Pharmaceuticals (on-sale bar)
- (patent) WesternGeco v. ION Geophysical (damages)
- (patent) DOJ's shifting position on patents and antitrust
- (patent) Huawei v. Samsung (China SEP enforcement)
- (patent/trade secret) Texas Advanced Optoelectronic Solutions v. Renesas (offers for sale/NDAs)
- (trade secret) BladeRoom Group Limited v. Facebook, Inc. (NDA time limits)
- (trade secret) Heightened scrutiny of restrictive covenants
- (copyright) Oracle America, Inc. v. Google Inc. (fair use)

Mission Products Holdings, Inc. v. Tempnology, LLC

Mission Products v. Tempnology

Factual Background

- Tempnology entered into an exclusive license and distribution agreement with Mission Products, to distribute exercise products. The license included rights under Tempnology's patents and trademarks.
- Tempnology filed a petition for bankruptcy under 11 U.S.C. §365(a), and sought to reject its agreement with Mission.
- Mission objected to the rejection, arguing that 11 U.S.C. §365(n) allowed Mission to retain both its exclusive distribution rights and its patent and trademark licenses. Tempnology conceded that Mission retained its patent license, but not the other rights.
- The bankruptcy court agreed with Tempnology on all issues.
- The bankruptcy appellate panel agreed with Tempnology regarding the distribution rights but overturned the court regarding the trademark rights, holding that while §365(n) failed to protect trademark licenses, Mission could retain its trademark rights under §365(g).
- The parties appealed to the First Circuit.

Mission Products v. Tempnology

Legal Background

- 11 U.S.C. §365(a) permits a debtor, with the court's approval, to reject any executory contract that is not beneficial to the debtor.
- 11 U.S.C. §365(n) provides an exception from §365(a)'s broad rejection authority by limiting the debtor's ability to terminate intellectual property licenses it has granted to other parties.
  - A licensee has the option to: (i) treat a debtor's rejection as a breach of contract, or (ii) retain its licensed IP rights for the duration of the contract.
  - The rights included under §365(n) expressly include trade secrets, patents, copyrights, etc., but do not include trademarks.

Mission Products v. Tempnology

- First Circuit Holding
  - Confirmed that exclusive distribution rights are not covered by §365(n).
  - Overturned bankruptcy appellate panel's ruling (and disagreed with the Seventh Circuit's holding in *Sunbeam Products v. Chicago American Manufacturing*) that rejection of a trademark agreement does not terminate rights.
    - §365(n) lists many IP rights, but does not list trademark rights.
    - Allowing a continuing trademark license under a rejected agreement would: (i) undercut Congress's principal aim in providing for rejection of an agreement; (ii) depart from the manner in which §365(n) operates; (iii) rely heavily on a few lines of a Senate report taken out of context; and (iv) invite further degradation of a debtors options for a fresh start.
- Supreme Court granted certiorari. Oral arguments were heard on February 20, 2019, but the justices gave few hints regarding how they were leaning. A decision is expected late June 2019.

Mission Products v. Tempnology

Business Pointers

- Trademark licensees have few ways to protect themselves from a rejection under bankruptcy. Possible strategies include:
  - In agreements licensing both trademark rights and other IP, split out the payments for the trademark license. That way, if the licensor declares bankruptcy and rejects the trademark license, the licensee can avoid making payments allocable to trademarks that are no longer licensed.
  - If negotiation leverage is high enough, demand ownership of the trademark (coupled with a license back to the assignor).
  - Obtain a security interest in the mark or the licensor's other assets. This would secure the damages claim if the trademark owner rejects the license. If the secured damages are sufficiently high, a licensor may decide against rejecting the license.

Helsinn Healthcare v. Teva Pharmaceuticals

Helsinn Healthcare v. Teva Pharmaceuticals

Factual Background

- Helsinn owned four patents directed to drug formulations. All four patents had a critical date of January 30, 2002. One was subject to AIA (the others predated).
- On April 6, 2001, Helsinn entered into an agreement to license and supply the drug to a distributor. The agreement was public, but the details of the formulations were confidential.
- Helsinn later sued Teva for infringement of its patents.
- Teva argued that the patents were invalid under the 102(b) on-sale bar.
- District court found no on-sale bar because the distribution agreement did not disclose the specific dose of the drug, and thus did not make the invention available to the public.
- Fed. Cir. overturned. Helsinn appealed to Supreme Court.

Helsinn Healthcare v. Teva Pharmaceuticals

Legal Background

- Under pre-AIA law, sales by patentee could trigger the on-sale bar, even if the details of the invention were not public.
- The AIA added language barring patents for inventions that were on sale “or otherwise available to the public” before the effective filing date.
- The question raised was whether the on-sale bar under the AIA was triggered by sales in which certain details of the transaction, as well as the patented invention itself, were confidential.
  - In other words, did the new language change the rule that the on-sale bar was triggered by sales where details of invention were not public.

Helsinn Healthcare v. Teva Pharmaceuticals

Supreme Court Holding

- The AIA did not change the statutory meaning of “on sale.”
- “Because we determine that Congress did not alter the meaning of ‘on sale’ when it enacted the AIA, we hold that an inventor’s sale of an invention to a third party who is obligated to keep the invention confidential can qualify as prior art under §102(a).”
- Essentially – no change with respect to an on-sale bar arising from the public sale of a product secretly embodying a patented invention.

Helsinn Healthcare v. Teva Pharmaceuticals

Business Pointers

- The Supreme Court's opinion also cited with approval that the Federal Circuit "has long held that 'secret sales' can invalidate a patent." This suggests that even if the Helsinn sale had been confidential, the outcome would have been the same.
- To preserve the ability to obtain U.S. patent protection, ensure that a U.S. patent application is filed within one year after either the first public disclosure or any sale of an embodying product.
  - For foreign protection, file a patent application before the public disclosure or sale – no one-year safe harbor.
- This decision has no impact on Medicines Company v. Hospira (2016), which found no on-sale bar where a supply agreement was structured as a service agreement.

WesternGeco LLC v. ION Geophysical Corp.

WesternGeco LLC v. ION Geophysical Corp.

Factual Background

- WesternGeco owns patents for systems used for surveying the ocean floor.
- ION shipped components made in the U.S. to customers abroad, where they were assembled into a system that infringed WesternGeco's patents.
- WesternGeco sued under 35 USC 271(f)(1) and (f)(2), seeking royalties and lost profits.
- The jury awarded worldwide lost profits damages for infringement under 35 USC 271(f)(2).
- The Federal Circuit overturned the award of lost profits for foreign sales. WesternGeco appealed to the Supreme Court.

WesternGeco LLC v. ION Geophysical Corp.

Factual Background – 35 USC §271(f)

(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

WesternGeco LLC v. ION Geophysical Corp.

Supreme Court Decision

- The Court acknowledged a presumption of no extraterritorial application of U.S. laws.
- The presumption can be rebutted under a two step test:
  1. Does the text of the statute provide a clear indication of an extraterritorial application?
  2. If not, then did the conduct relevant to the "focus" of the statute occur in the U.S.?
- The Court skipped step (1).
- Re step (2), the Court held that the focus of §284 (which states that damages shall be awarded for proven infringement), in a case involving §271(f)(2), is the act of exporting components from the U.S. Therefore, the lost profits damages that were awarded were a domestic application of §284.

WesternGeco LLC v. ION Geophysical Corp.

Open Issues

- Does the reasoning in WesternGeco also apply to reasonable royalty damages?
  - The holding was expressly limited to lost profits, but the reasoning would likely apply equally to reasonable royalties. However, such damages would likely be much lower.
- Does the reasoning in WesterGeco also apply to direct infringement under §271(a)?
  - Unlike §271(f)(2), §271(a) is expressly limited to actions occurring within the United States, and does not include any foreign action.
  - However, the District of Delaware has held that the Supreme Court implicitly overruled Fed. Cir. precedent holding that §271(a) does not support damages on foreign sales. See Power Integrations v. Fairchild Semiconductor.

WesternGeco LLC v. ION Geophysical Corp.

Business Pointers

- Licensors
  - Can now seek royalties based on sales outside U.S. if licensee would be exporting components that could be combined outside the U.S. in an infringing manner.
  - Be careful about double recovery. If licensor already has a patent claim that would cover all components (e.g., because they are manufactured in the U.S.), then attempts to obtain additional royalties under §271(f)(2) may face exhaustion issues.
- Licensees
  - Be aware that liability may not be avoided by relying on extraterritorial assembly of a product covered by a third party patent.
  - Because damages could include lost profits, which are based on the assembled product and not the component, may need to factor in higher reserves for potential IP liability.

Department of Justice Position on SEPs

Department of Justice Position on SEPs

Background

- In 2013, the DOJ and USPTO issued a joint policy statement discouraging the ITC from banning imports of products that infringe FRAND-encumbered patents.
  - A patent is FRAND-encumbered when the patent-owner has voluntarily agreed to license the patent on fair, reasonable, and non-discriminatory terms in exchange for having the patented technology become part of an industry standard.
  - The agencies were concerned that SEP owners could use the threat of an import ban to extract unfairly high royalties for their patents, despite the commitment to license on FRAND terms.

Department of Justice Position on SEPs

New Position

- On September 27, 2017, Makan Delrahim was confirmed as the new Assistant Attorney General for the Antitrust Division of the DOJ.
- In several speeches delivered late 2018, Mr. Delrahim announced a new DOJ policy:
  - The DOJ officially withdraws from the 2013 policy statement.
  - A decision not to license by the owner of a FRAND-encumbered patent is not conduct in violation of the antitrust laws. Such conduct should be enforced via contract law.
  - The DOJ will, however, closely scrutinize the patent policies of SSOs and group decisions by technology companies not to participate in SSOs based on the patent policies of the SSOs.

Department of Justice Position on SEPs

Business Pointers

- While the DOJ's policy is clear with respect to ITC exclusion order decisions based on SEPs, it is less certain how the DOJ will enforce its new policy against SSOs and SSO members.
- Don't assume free ability to abandon FRAND commitments:
  - The DOJ clearly stated its view that contract law can be used to enforce FRAND commitments.
  - The FTC still considers the refusal of a SEP owner to license on FRAND terms a potential antitrust issue.
  - The new DOJ policy has no impact on the existing body of case law developed by US courts with respect to SEPs and antitrust liability.

Huawei v. Samsung (China litigation)

Huawei v. Samsung

Factual Background

- Both Samsung and Huawei had standard essential patents (SEPs) and began cross-license discussions in 2011. In May 2016, Huawei filed a number of patent lawsuits against Samsung in the U.S. and China. Samsung countersued with its own SEPs.
- In a decision by the Shenzhen Intermediate Court on January 11, 2018, the court found that Samsung infringed two of Huawei's Chinese SEPs and issued a permanent injunction in favor of Huawei. Samsung immediately appealed.
- The court analyzed the FRAND negotiations between Samsung and Huawei to determine whether either party was "at fault" and whether either violated its FRAND obligations.

Huawei v. Samsung

Decision of Shenzhen Intermediate Court

- Samsung violated its FRAND obligations by:
  - insisting on bundling SEPS and non-SEPs;
  - repeatedly delaying negotiations and providing non-substantive responses to Huawei offers;
  - refusing arbitration; and
  - offering a royalty rate out of proportion to the strength of its patents.
- In contrast, Huawei:
  - expressed willingness to negotiate a SEP-only license;
  - provided claim charts and multiple royalty rates;
  - offered to submit to arbitration;
  - responded diligently to Samsung's invitation to negotiate; and
  - offered a royalty rate in proportion to the strength of its patents.

Huawei v. Samsung

U.S. Injunction Against the China Injunction

- On April 13, 2018, Judge Orrick of the U.S. District Court for Northern District of California enjoined Huawei from enforcing the Chinese injunction until he has decided the FRAND issues.
  - Huawei filed a parallel case in the U.S. one day before it filed its case in China.
  - The factors considered by the Chinese court in determining that Samsung breached its FRAND commitment appeared more limited than the factors considered by a U.S. court.
  - The injunction is limited in scope and duration (only a few months).
- At an appellate hearing on December 3, the Federal Circuit sounded skeptical of Judge Orrick's reasoning.

Huawei v. Samsung

Business Pointers

- To avoid an injunction in China, don’t be uncooperative during SEP licensing discussions:
  - Respond promptly.
  - Be willing to license only SEPs – don’t insist on bundling with non-SEPs if licensee wants to license only SEPs.
  - Be willing to arbitrate.
  - Follow the top-down methodology described in the Shenzhen court’s opinion when setting royalty rates.

Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.

Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.

Factual Background

- After failed merger discussions, Texas Advanced Optoelectrinic Solutions (“TAOS”) sued Renesas for, among other things, patent infringement based on offers to sell in the U.S. and for trade secret misappropriation.
- TAOS won, but the judge limited the patent infringement damages to only those 1.2% of sales that actually occurred in the United States.
- TAOS appealed the judge’s order, which excluded 98.8% of the infringing extraterritorial sales.

Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.

Federal Circuit Decision & Appeal

- The Federal Circuit affirmed this portion of the result, relying on Transocean Offshore Deepwater Drilling v. Maersk Contractors for the rule that an infringing offer to sell under §271(a) must be an offer to make a sale that will occur in the U.S.
- Fed. Cir. said that TAOS presented evidence that some discussions had occurred in the U.S., but not solid evidence that such discussions constituted offers for sale or related to sales that occurred in the U.S.
- TAOS has filed a petition for certiorari, seeking Supreme Court review of "whether an 'offer[] to sell' occurs where the offer is actually made or where the offer contemplates that the proposed sale will take place."
- In January, the Supreme Court asked for the views of the Solicitor General regarding the cert. petition.

Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.

Business Pointers

- For now, at least, the law has not changed.
- U.S. patent law does not cover offers in the U.S. to sell products outside the U.S. – mere business discussions do not give rise to infringement liability.
- But, this case bears watching. A change in the law would have serious implications in how business is conducted.

Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.

NDA Interpretation

- TAOS' theory of trade secret misappropriation rests in part on Renesas' use of financial information for "Build vs. Buy" analysis.
- NDA designed "to allow both parties to evaluate the Possible Business Relationship" with a "Permitted Use" of Confidential Information "for the limited purpose of enabling the recipient of such information (the 'Recipient') to investigate and evaluate the business and financial condition of the other (the 'Provider') in connection with" M&A discussions and negotiations.
- Court holds that potential buyer's use of information to evaluate whether to build its own competitive product is "clearly permitted" by the NDA and cannot form basis of misappropriation.

Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.

Business Pointers

- Quoted “permitted use” language reads narrower than relatively common formulation of “evaluate whether to enter into the proposed transaction.”
- Be aware that courts may read a “permitted use” broadly.
- Consider explicit exclusions from permitted purpose in NDA.

BladeRoom Group Limited v. Facebook, Inc.

BladeRoom Group Limited v. Facebook, Inc.

NDA Time Limits – Background

- Several cases have held that an NDA that provides for restrictions on disclosure or use to expire at some point can harm trade secret status
  - Silicon Image, Inc. v. Analog Semiconductor, Inc. and D.B. Riley, Inc. v. AB Engineering Corp. (Reliance on NDA with expiration date is not use of reasonable efforts to maintain secrecy)
  - Marketel Intern., Inc. v. Priceline.com, Inc. (NDA supersedes an implied duty of confidentiality, so no duty exists upon NDA expiration)

BladeRoom Group Limited v. Facebook, Inc.

Court Decision

- BladeRoom court: "…as to the *tort* for trade secret misappropriation, the fact that a *contract* expired does not automatically render any information incapable of receiving trade secret protection; rather, it is one fact the jury may consider to determine whether or not Plaintiffs adequately protected their trade secrets subsequent to the termination."
- Alta Devices, Inc. v. LG Electronics, Inc.: Citing BladeRoom and further holding that the "Silicon Image, Inc. decision had nothing to do with the duration of an NDA."

BladeRoom Group Limited v. Facebook, Inc.

Business Pointers

- Should continue to push for protection for anything qualifying as a trade secret until and unless information becomes public through no fault of recipient.
- But, all is not necessarily lost with disclosure under a time-limited NDA; consider what other means can be implemented to ensure ongoing secrecy.
  - Timely exercise rights to require recipient to destroy confidential information.

Scrutiny of Restrictive Covenants

Scrutiny of Restrictive Covenants

Scrutiny on All Fronts

- Employee “no poach” provisions are often justified by businesses as necessary for trade secret protection.
- Multiple class actions brought against franchisors (e.g., McDonald’s, Burger King) based on employee poaching provisions in franchisee agreements that prevented employee mobility across franchisees.
- State attorney generals and DOJ were also very active in enforcement efforts in multiple industries
- Heightened regulatory focus on employee mobility

Scrutiny of Restrictive Covenants

Business Pointers

- Examine your organization's use of no-poach provisions
- "Naked" no-poach agreements not reasonably necessary for a legitimately business transaction or collaboration create high risk of enforcement
- No-poach agreement tied to a transaction should be narrowly tailored and antitrust counsel should be consulted.
- Do not require rank-and-file employees without access to confidential information to agree to no-poach agreement
  - Do not use for California-based employees

Oracle America, Inc. v. Google Inc.

Oracle America, Inc. v. Google Inc.

Background

- Google copied Java API headers for its Android OS to allow Java developers to easily generate Android applications
- Oracle acquired rights in Java through the Sun acquisition, sued for copyright infringement
- Initial ruling for Google finding that API code was not copyrightable was overturned by Federal Circuit
- On remand, jury found for Google based on fair use
- Jury verdict appealed to Federal Circuit

Oracle America, Inc. v. Google Inc.

Federal Circuit Holding

- Jury fair use finding overturned.
  - Use was not transformative since Google was using the copied API headers as API headers
  - Use was commercial in nature and harmed Oracle's ability to enter smartphone OS market
  - Amount of copied code was "qualitatively significant"
  - Only factor favoring Google was the primarily functional, not expressive, nature of the work
- Currently on appeal to Supreme Court

Oracle America, Inc. v. Google Inc.

Business Pointers

- This case bears watching.
- Many other software applications have mimicked the API structure of third party software application for compatibility purposes:
  - Linux uses POSIX API structure used by Unix
  - Several third parties offer cloud storage products that are compatible with Amazon S3
- May impact IP indemnity obligations in ways that were not considered, and may impact how software is developed in the future.

Questions

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