Navigating **Intellectual Property** Thickets

Twin Cities attorneys analyze the impact of the Defend Trade Secrets Act as well as how evolving IP law applies to videos and software.

Technological advancements have made trade secret theft an even more compelling topic for businesses. When it comes to safeguarding a company's intellectual property, it's helpful for executives to have a working knowledge of how the courts and U.S. Patent and Trademark Office are deciding major IP issues.

To get a handle on pending IP legislation in Congress and the rulings of a U.S. Supreme Court with two new justices, *Twin Cities Business* contacted prominent IP attorneys for their perspectives. We asked them to weigh in on several topics, including the effects of the three-year-old Defend Trade Secrets Act.

—Liz Fedor, Trending Editor

Securing Software Patents

Eric Chad
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Q In 2019, many innovations involve the creation of new software. In several instances, the innovation may be an improvement to software that already exists. How does patent and copyright law apply to software? Is software an area that is prone to intellectual property disputes?

IP disputes involving software are common. Developers have several avenues available to them to protect their investment, including, but not limited to, copyrights and patents. Often, developers will elect to protect their innovation in multiple ways. Copyright law protects original works of authorship, not concepts or ideas, so developers that elect to use copyright protection for their software generally claim rights in the source code, specific user-interface design, or some other particular expression.

Many developers also seek patent protection for the functionality of their software. Over the past decade or so, courts have adjusted the criteria for obtaining software patents that cover abstract ideas or laws of nature as opposed to concrete inventions. This adjustment, combined with procedures created by legislation earlier this decade to permit parties to challenge granted patents at the Patent and Trademark Office, has modified the manner in which software patents are viewed by the Patent Office.

It has become critical to bring in an experienced patent attorney who understands the intricacies of this evolving landscape when applying for software patents. While the path to software patents has adjusted, some of the biggest patent filers are software companies, and there are still thousands upon thousands of patent applications covering software filed every year.

The issue of software innovation often being incremental improvements on software that already exists does not mean that that innovation is not independently protectable. The novel concepts or portions of code are still protectable provided they meet other criteria for protection.

Q The Defend Trade Secrets Act was signed into law by President Obama in 2016. What was it designed to do? What have been the major impacts of the act in the three years that it has been in effect?

Prior to the Defend Trade Secrets Act (DTSA), trade secrets were primarily protected under state law. Though all but two states adopted some version of the Uniform Trade Secrets Act (UTSA), adoption of the UTSA was not uniform. As one example, the length of the statute of limitations varied by state. Even where states enacted the same provisions, different states interpreted those provisions differently. The DTSA was designed primarily to create a uniform body of trade secret law throughout the nation and ensure that trade secret owners could enforce their rights in federal court. If the DTSA was interpreted differently by different federal courts, these differences can be resolved by the Supreme Court, which was not the case when trade secrets were protected primarily under state laws. The DTSA included some other key provisions, like special remedies for the seizure of products improperly incorporating trade secrets and whistleblower protection.

The impact of the DTSA has been somewhat limited. Because the DTSA did not preempt state trade secret laws and is similar to those laws in states that have adopted the UTSA, plaintiffs will often file suit under the DTSA while also pleading state law claims. The fact that these cases are more frequently heard in federal court has not meaningfully changed these cases. Though the DTSA's provisions for product seizures were a popular talking point when the DTSA became law, courts have been reluctant to grant requests for such seizures. The whistleblower protections have also rarely been employed.

Increasing Patent Liability

John Dragseth
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Q With the addition of Justices Gorsuch and Kavanaugh to the U.S. Supreme Court, are we seeing any significant changes in how the high court rules on intellectual property cases? On IP cases, are we regularly seeing a 5-4 split? In the past year or so, was there a major IP Supreme Court decision that is resulting in a big impact on a particular business sector?

With one exception, I don't expect any real changes. Conservative judges used to be pro-IP because they were protectors of private property, but that's pretty much gone away. Also, the Supreme Court has to be looking for places where the justices can agree—to undercut the narrative that it is a political body—and IP cases are a great place for that.

The one exception is administrative law. Justice Gorsuch is known to have concerns that Congress hands too much power to administrative agencies. Half of IP appeals now are from an agency—the Patent and Trademark Office—and smart players know to frame their cases there for the coming changes in administrative law.

The biggest recent Supreme Court IP decision is *WesternGeco v. ION Geophysical Corp.* (June 22, 2018), because it has the possibility to really increase liability in patent cases where manufacturing and shipments occurred outside the United States (which were previously believed to be immune from patent liability).

Q The Defend Trade Secrets Act was signed into law by President Obama in 2016. What was it designed to do? What have been the major impacts of the act in the three years that it has been in effect?

The law doesn't do a whole lot for the most part. It allows you to bring a federal trade secret action in the same way you always could (and still can) bring a state trade secret action in almost every state.

In extremely rare cases, you can get a seizure order and go grab the stolen stuff with the cops; this can be incredibly powerful (and a little exciting) when it applies, but it seldom applies.

Bottom line, if you are a businessperson, you are better off leaving these fine points to your attorneys and focusing your mental energy and day-to-day management efforts on making sure you have:
a) good employment agreements,
b) good processing of departing employees,
c) a solid IP strategy that guides what you patent and what you keep secret,
d) good security for your labs and plants so as to prevent trade secrets from walking out the door.

Reforming the Patent Act

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Q In recent years, the U.S. Supreme Court has dramatically restricted the patent eligibility guidelines, particularly for patents in the biology and software industries. Do you think Congress will address the issue

before the end of the year? If so, what substantive changes do you expect?

Since a trio of Supreme Court cases beginning in 2012, the law on patent eligibility has been anything but clear. The Supreme Court's so-called "tests" are based on loose definitions and have been applied inconsistently by the lower courts, which has created tremendous uncertainty in the patent eligibility laws and regulations.

In practice, for many U.S. companies, particularly in the life sciences and software industries, lack of clarity over what is patent-eligible has prevented companies from having the stability and predictability needed to invest in new technologies. This is especially true for companies utilizing artificial intelligence or those investing in personalized treatments for diseases.

In addition to stakeholders urging change, the director of the U.S. Patent and Trademark Office, Andrei Iancu, has called for clarification of Sec. 101 of the Patent Law (the patent eligibility law) by Congress, as have several judges of the Federal Circuit (the court that hears all patent appeals).

In response, U.S. Sens. Chris Coons, D-Del., and Thom Tillis, R-N.C., as well as U.S. Reps. Hank Johnson, D-Ga., Doug Collins, R-Ga., and Steve Stivers, R-Ohio, have taken the lead on bipartisan legislation that would reform Sec. 101 of the Patent Act. This follows a series of roundtable meetings held last spring and a trilogy of hearings in the Senate Judiciary Committee's Intellectual Property Subcommittee, where senators heard testimony from 45 diverse witnesses.

The legislation is likely to undo such narrowing by the Supreme Court and return Sec. 101 to what it once was—a coarse filter designed to promote innovation. Although certain things like mathematical equations or leaves plucked from a tree were never intended to be eligible for patent protection, the original goal of Sec. 101 was to act like the top of a funnel that welcomes a variety of innovation and then leaves it to the other requirements of the Patent Act (novelty, non-obviousness, written description) to substantially narrow the scope of what can be patented.

It is unclear whether the legislation will be acted upon by the end of 2019. What is clear is that innovators, large and small, need clarity over what is patent-eligible as they invest now in the future of technology and medicine that is 20 years down the road.

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American businesses own an estimated $5 trillion worth of trade secrets, which people usually think of as the Coca-Cola formula or the recipe for Sweet Martha's Cookies. But trade secrets include all types of information (business, scientific, financial) as well as methods of production, designs, techniques, processes, programs, or codes that derive economic value because of their secrecy. Owners are required to take reasonable measures to keep trade secrets secret. Once a trade secret is disclosed, it loses protection forever.

Years ago, trade secret theft meant stealing physical documents. Today, with the sophistication of data storage technology, it is possible to contain billions of dollars' worth of trade secrets on a flash drive.

Prior to the DTSA, trade secret owners had two avenues for enforcement: federal criminal law or a patchwork of state civil laws. However, the frequency and sophistication of trade secret theft across state and country lines made both options untenable.

The DTSA created a federal civil cause of action for companies to directly combat trade secret misappropriation in federal court. It also created an *ex parte* (one party) seizure provision so that owners could request seizure of stolen trade secrets from a federal judge in certain, limited circumstances (such as when U.S. trade secrets were leaving the U.S. expeditiously).

Over the last three years, the DTSA has filled a specific gap by making it easier for trade secret owners to utilize the federal courts, especially for companies that would have otherwise relied on already-strained federal criminal resources. Despite criticism when enacted, the DTSA does not appear to have overburdened the federal courts or created a dramatic change in trade secret laws overall. Instead, it seems to have had the positive effect of rounding out the tools available for U.S. businesses facing trade secret theft—a necessary update to combat the technological sophistication of trade secret theft of today.

Are Diagnostic Tests Patent-Eligible?

Warren Woessner
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Schwegman Lundberg Woessner

Q The U.S. Supreme Court ruled on *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* several years ago, giving guidance on patent eligibility for biotech and life sciences technologies. What have been the effects of that ruling, and what other court or dispute resolution responses has it triggered?

Patent subject matter eligibility has been one of my primary concerns since *Prometheus v. Mayo* was decided. A majority of the judges on the Federal Circuit read *Mayo* expansively and have consistently ruled that simple diagnostic tests based on naturally occurring correlations, like high PSA, high risk of prostate cancer, are not patent-eligible but are natural phenomena like lightning or the fact that blood contains hemoglobin.

These judges read the *Mayo* and later *Alice* decisions as requiring that the diagnostic claim have an additional "inventive concept." As a result, the Federal Circuit has invalidated every "If A, then B" diagnostic test claim that has come before it and also has refused rehearing *en banc* (full court). The Supreme Court has been called upon to clarify the scope of *Mayo* but has refused to grant *cert* (review by the high court) on every Federal Circuit decision.

So there are only two paths out of this thicket—the Supreme Court must clarify and hopefully limit the *Mayo* decision or Congress must pass a bill that makes it clear that diagnostic tests are patent-eligible subject matter as inventive and practical applications of "natural laws." The Senate subcommittee on intellectual property recently held two days of hearings on such a bill but, to date, no bill has been introduced.

Steven Lundberg
Principal and
Chief Innovation Officer
Schwegman Lundberg Woessner

Q The Defend Trade Secrets Act was signed into law by President Obama in 2016. What was it designed to do? What have been the major impacts of the act in the three years that it has been in effect?

The Defend Trade Secrets Act federalized trade secret law. DTSA authorizes a trade secret owner to bring a civil action in federal court for 1) misappropriation of a trade secret related to a product or service used in interstate or foreign commerce or 2) a violation of the Economic Espionage Act, which criminalizes some trade secret misappropriation.

Prior to DTSA, each state had its own civil trade secret law. This caused venue and choice-of-law disputes. DTSA has provided more uniform

trade secret protection. In particular, DTSA allows for courts to issue *ex parte* orders in these proceedings for the preservation of evidence or seizure of property involved. This remedy is new and unique with DTSA, enforceable by federal law.

An uptick in trade secret litigation has occurred since DTSA. Courts have more often ruled in favor of claimants on injunctions. While defendants tend to win on summary judgment and the pleadings, claimants have more often shown both they had a trade secret and it was misappropriated when the case goes to trial. Defenses have included independent development and equitable defenses.

Some DTSA cases have resulted in damages ranging from $60,000 to $2.4 million. See, for example, a fig spread recipe dispute in *Dalmatia Import Group, Inc. v. FoodMatch, Inc.* or *Steves and Sons, Inc. v. Jeld-Wen, Inc.*, involving an interior molded door skin. Damages have been calculated under lost profits, willfulness damages, and/or reasonable royalty. Claims under DTSA have yet to reach the Federal Circuit.

Violating Copyright Law with Videos

David P. Swenson
Shareholder
Larkin Hoffman

Q Every day, videos are posted on social media for marketing a product, advancing a political position, or simply for defining an individual's digital public profile. How does fair use come into play with videos? Are there particular IP law concerns that businesses should be aware of in the use of videos?

Frankly, much or even most of the video sharing that people engage in on social media quite probably does not qualify for the "fair use" exception under copyright law. If you like someone else's video and merely slap it on your own social media page for your friends or business contacts to enjoy too, that is not fair use. This is especially true if the video is itself a marketable commodity—or incorporates one (like a song) or a substantial part of one (like a film or show)—that the creator would normally otherwise seek royalties for its use.

Although, admittedly, oftentimes videos are made in the first place for the purpose of promoting the original creator or their products or services. Thus, the creator may indeed be perfectly happy that you posted their copyrighted video. But to qualify legally as a fair use is an entirely different issue. A few rough guidelines include that purely noncommercial uses are more likely to qualify as fair use. Additionally, if you "transform" a video in some fashion, that becomes a fair use. Examples comprise posting a video to comment on or critique it, or the use of a factual clip to comment on an event, or as part of a larger discussion or illustration of a point. Unfortunately, the edges of the fair use doctrine are fuzzy, and a business in particular should consult with an attorney if it has any concerns about how it wishes to use someone else's video.

Q The Defend Trade Secrets Act was signed into law by President Obama in 2016. What was it designed to do? What have been the major impacts of the act in the three years that it has been in effect?

The Defend Trade Secrets Act created a private federal cause of action for trade secret misappropriation and harmonized it with the Uniform Trade Secrets Act (UTSA), adopted in most states. It expanded the 1996 Economic Espionage Act, which criminalized trade secret theft, and defined trade secrets to include information technology, but had not created a private cause of action. Like the Lanham Act for trademarks (and unlike patent law), the DTSA does not preempt state law and maintains a similar dual system. Like the UTSA, the DTSA imposes a three-year statute of limitations. Other key provisions include heightened protection for employees' right to work in the context of trade secrets in job transitions and protection for whistleblowers from liability for disclosures when reporting violations of law in the workplace.

On the other hand, the DTSA allows misappropriation plaintiffs to seek an *ex parte* seizure order, without advance notice to the defendant. Procedurally, the DTSA obligates plaintiffs up front to define the trade secret at issue with particularity, which was often a sticking point in pre-DTSA litigation where plaintiffs resisted providing the definition until obtaining discovery on the defendant's technology.

While the DTSA has shifted trade secret cases into federal court, and there have been federal jury verdicts under the DTSA, commentators generally do not see a large impact yet.