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**RISK-SHIFTING IN PURCHASE ORDERS**

If you order a product from a vendor, who is responsible if it infringes someone else’s patent? Shouldn’t it be the vendor? Fairness would seem to say so. The vendor presumably knows the industry/technology and is in a better position to know of any patent issues.

The fine print of a purchase order may say the opposite. A purchase order is a commercial contract between entities. Look at this example language:

“Buyer assumes all responsibility and holds Vendor harmless for any claim, threat, or action for patent infringement relating to this Purchase Order. Buyer shall indemnify vendor against any such claims, threats, or actions including any settlements, judgments, and attorney’s fees.”

This may look like boiler plate language. But it effectively tries to shift all monetary risk of some third party claim of patent infringement to the buyer of a product that may have no say in how it is made. If enforced/upheld, that innocent buyer of a vendor’s product may not only (a) be on its own if sued for infringement but (b) actually have to pay the vendor any judgment and attorney’s fees the vendor incurs.

The sometimes inconvenient truth is: read all the purchase order language before you sign it. Otherwise you may get surprised.

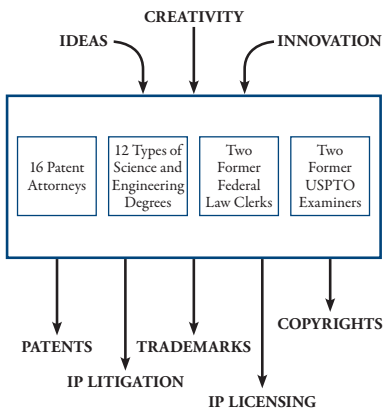
In a worst case scenario, patent infringement results in joint and several liability to anyone that makes, uses, offers to sell, or sells a patented product. You and the vendor might get sued. A finding of infringement can then result in the vendor trying to enforce the indemnification clause of the purchase order. If upheld, you may pay all damages for the infringement and the attorney’s fees of the vendor as well as your own.

An easy answer, of course, is don’t sign it if you don’t want that risk. But it is understood that you may decide your need for the product (price, durability, quality) outweighs the risk. All is not necessarily lost.

The law tries to inject some balance on this issue. In the world of negligence in commercial transactions, the law has developed what is called the “strict construction” rule. For example, if a vendor of a product tries to shift risk of a claim of negligence to the buyer, it rarely will be upheld unless the language is very specific and explicit on that point. See, for example, *Tenneco Oil Company v. Gulsby*, 846 S.W.2d 599 (Tex.Civ.App. 1993). The buyer resold the vendor’s product to a consumer. The consumer got injured and sued both the buyer and vendor for negligence. The court held the vendor’s indemnity clause cannot be applied to a buyer for a negligence claim based on a product design the buyer had no part of. The rationale the court used is that, in commercial transactions, parties should assume each has exercised reasonable care. Therefore, it is unfair for a vendor to shift risk of a lawsuit to a buyer when the buyer has nothing to do with creating the product— and is simply buying it. However, the court also said that indemnification is contract-based not fault-based. Therefore, if the language in the purchase order is abundantly clear the risk is shifted to the buyer, it likely would be enforceable.

What about patent infringement claims? The same conclusion is reached by author C.A. Rutkowski in an article entitled “*Vendor Indemnification of Patent Infringement Claims*”, Bloomberg Corporate Law Journal, Volume 3, pgs. 282-299 (2008). Although the author at that time did not find any cases directly on point regarding patent infringement, the author predicted the courts will act similarly to the result in the negligence claims cases discussed above.

*Intellectual Property  
Protecting. Defending. Enforcing.*



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There are still good reasons to at least know what the purchase order language is to judge the level of risk you might assume. Consider this nightmare fact pattern. You order 1000 products worth \$500 each and accept indemnification of your vendor for patent infringement. The vendor gets sued. What if the vendor unilaterally settles the claim against it for millions of dollars? The vendor might not care because you have agreed to indemnify. But their settlement is grossly out-of-line with reality. There may even be an issue of whether or not the products infringe. If the vendor signed a consent judgment as a result of the settlement, the patent holder could try to bind you to a multimillion dollar judgment.

Therefore, you basically have these options:

- Option 1: Don't agree. Get any indemnification language stricken. Let both sides share the risk. If the vendor's products are covered by Article 2 of the Uniform Commercial Code, there may be clauses that actually automatically shift burden to them.
- Option 2: Rewrite the Purchase Order language. Turn the risk back to the vendor. They are in a better position to bear the risk. Or at least narrow it to what is fairer.
- Option 3: Live with the risk or manage it on your side. Consider buying patent infringement insurance.

None of these options is perfect. As a final thought, if any indemnification clauses apply to your situation, remember also that they may only apply if the party getting sued notifies you. Thus, under Option 2 one way to rewrite and narrow an indemnification obligation is to require the vendor to notify you in writing that a claim has been made against them. Ideally the language would also expressly prohibit them from settling or defending the matter without your knowledge and control.

<sup>1</sup> Under Article 2 of the UCC, if the buyer does not give the vendor the specific design for the product, the vendor may be responsible for patent infringement and perhaps even must indemnify the buyer. This reflects the commercial theory that a vendor needs to take reasonable care and bear the risk of products it designs and sells; and it is unfair to apply risk to the buyer when there is no fault of the buyer.

## POLICING YOUR INTELLECTUAL PROPERTY

*By Kirk M. Hartung*

Patents and trademarks are valuable assets for many companies. Typically, you have invested time and money doing research and development, patenting new inventions, developing a trademark and/or logo, obtaining a trademark registration, and marketing your products and services. You've done the preliminary work to create value from these efforts. But there is more work to be done to assure that your work is fully rewarded.

As the patent owner, you should take affirmative action to watch and police the industry for competitors who may infringe the patent. For example, a plan of action should be in place to educate the appropriate people, including management, the sales force, and others out in the field, about each new patent and the patent portfolio, so as to keep an eye open for potential infringement problems. Regularly scheduled searches on the internet can be conducted to monitor competitors' conduct. Infringement concerns should be promptly brought to the attention of in-house or outside counsel. A notice letter should be sent to the accused infringer, specifically asking that they cease and desist all infringing activities. Quick action will often reduce damages, save costs, and resolve any disputes in a timely and economical manner.

Once your trademark is used in commerce, even while a trademark registration application is pending, you should police the marketplace to assure that no one is using the same or similar trademark directed to the same potential consumers or through the same or similar channels of trade. Trademark infringement exists if there is a likelihood of confusion among consumers. Marks do not need to be identical to be confusing.

Preventing any likelihood of confusion in the marketplace should be a primary goal for your business. Actual confusion can be detrimental. For example, a competitor who uses the same or similar name may have inferior products or services, negligence, or other quality issues which can be mistakenly attributed to your product or service. Such mistakes damage your goodwill due to the conduct, or misconduct, of a third party. Therefore, it is important to periodically search for any unauthorized use of a confusingly similar name. If such a problem is discovered, it should be addressed immediately, such as with a cease and desist letter to the infringer. There should also be prompt follow up to the letter to assure that the infringement is stopped as soon as possible. Delay in enforcing your trademark rights may lead to the inability to stop the infringer, or even abandonment of your trademark.

The company business plan for intellectual property may provide substantial value to the company, or may be leaving substantial value on the table. A thorough plan, properly executed, can provide protection for innovations and marketing, and yield payback for expenditures relating to product development and marketing.

Proper policing can assure that the highest value is obtained and maintained for your inventions and trademarks. Don't lose the value of acquiring your patent and trademark rights by ignoring the necessary steps and best practices for enforcing these rights.

# TIPS TO HELP MANAGE IP LITIGATION COSTS

by Alexandria M. Christian

It is no secret that intellectual property (IP) litigation costs tend to be much higher than other types of litigation. Every year, the American Intellectual Property Law Association (AIPLA), provides survey data relating to the costs of IP litigation, broken down by area.

## PATENT INFRINGEMENT

Based on the AIPLA's survey, out of all the different types IP litigation, patent infringement is the clear winner for highest average litigation costs. For example, parties in a patent infringement case with an amount in controversy less than \$1 million can expect to spend an average of \$530,000 through discovery and \$970,000 through trial. Expectedly, there is a positive correlation between the amount in controversy and the cost of litigation: when the amount in controversy is more than \$25 million, patent infringement litigants can expect to spend an average of \$3.6 million through discovery and \$5.9 million through the end of trial.

## TRADEMARK AND COPYRIGHT INFRINGEMENT

Though the average cost of a trademark or copyright infringement suit is lower than patent infringement, the numbers are still high. Parties to a trademark or copyright infringement case with an amount in controversy lower than \$1 million will typically incur an average cost of around \$202,000 through discovery and \$375,000 through trial. Like patent infringement, there is a positive correlation between costs and the amount in controversy. For cases with an amount in controversy over \$25 million, litigants can expect an average cost of around \$1.3 million through discovery, and \$2 million through trial.

Despite these numbers and the general consensus that IP litigation has to be prohibitively expensive, this is not always the case. Below are three easy steps to take that can result in less costs if or when litigation occurs:

### 1. Conduct Proper Due Diligence for Patents and Trademarks

In the context of patents, any individual or business interested in obtaining a patent should consider having patent counsel conduct a search and provide appropriate opinions regarding patentability or right-to-use. In fact, if appropriate, try and review competitors' patents during the development/design phase for any new products and seek an opinion from counsel to make sure the product does not infringe.

In the context of trademarks, prior to adopting a trademark or service mark, request counsel to conduct a screening search to determine whether your mark may infringe any existing trademarks.

### 2. Register Your Trademark and Copyright in a Timely Manner

In the realm of copyrights and trademarks, registering your intellectual property with the correct federal agency can have big implications for future litigation.

For example, in the context of copyrights, a person who timely files a copyright has the ability to elect statutory damages as a remedy. Because a large part of the costs in a copyright—and in any type of intellectual property case—infringement case may come from the use of experts to determine damages, having an ability to bypass this can save a plaintiff thousands and thousands of dollars. Additionally, a timely filed copyright registration allows a successful plaintiff the ability to seek its reasonable attorney's fees. Considering that attorney's fees tend to make up the majority of litigation fees, this can be vital to mitigating costs of litigation.

A trademark registration can also help mitigate costs for the trademark owner. First, a trademark registration serves as evidence of the validity and exclusive ownership of the trademark, with heightened protection after five years and the possibility of becoming "incontestable." A plaintiff who has the benefit of a registration has limited the issues in the litigation to a certain extent, thereby cutting down the costs associated with proving ownership and validity. Second, a registration can, in certain cases, allow for treble damages and attorney's fees.

### 3. Develop an Effective Discovery Plan

More than anything, developing an effective discovery plan takes the cooperation of both the client and counsel. When examining the costs of intellectual property litigation it becomes clear that the majority of costs are acquired during the discovery period. Due to the breadth and complexity inherent in electronic discovery, parties to intellectual property litigation have seen a spike in costs associated with discovery. However, there are ways to mitigate these costs.

#### *Pre-Litigation*

It is important to have a well-maintained and organized document retention policy. Having a system that is easy to navigate and is well organized allows for document collection to be less time consuming and thus less expensive.

#### *Mid-Litigation*

Once litigation has commenced, it is important to work with counsel to discuss an appropriate document collection strategy. According to a Rand Corporation study, \$0.73 of every dollar spent on e-discovery goes toward reviewing documents. To mitigate the associated costs, consider a third-party vendor for document collection. These "e-vendors" use state of the art software programs to collect the relevant documents, and provide a collection set that is free of duplicates and unnecessary documentation.

## CONCLUSION

Intellectual property litigation is an expensive undertaking. Despite the necessary costs, there are ways in which the parties can mitigate these costs.

## PATENTS IN SPACE

There has been much renewed interest in space travel and in the commercial pursuit of space travel. Despite setbacks such as the recent Virgin Galactic spaceship tragedy (killing one pilot and seriously injuring another) the quest continues to pursue private space travel.

As science and technological innovations are made to advance commercial space travel, there are important questions to be asked regarding protecting the resultant intellectual property produced as a part of all of the innovative activity. Amongst these questions is whether current patent law can function in a manner that adequately protects space-related innovations.

U.S. patent laws do attempt to address some of these issues. In particular, the patent laws (35 U.S.C. 105 – Inventions in Outer Space) states that:

- (a) Any invention made, used or sold in outer space on a space object or component thereof under the jurisdiction or control of the United States shall be considered to be made, used or sold within the United States for the purposes of this title, except with respect to any space object or component thereof that is specifically identified and otherwise provided for by an international agreement to which the United States is a party, or with respect to any space object or component thereof that is carried on the registry of a foreign state in accordance with the Convention on Registration of Objects Launched into Outer Space.
- (b) Any invention made, used or sold in outer space on a space object or component thereof that is carried on the registry of a foreign state in accordance with the Convention on Registration of Objects Launched into Outer Space, shall be considered to be made, used or sold within the United States for the purposes of this title if specifically so agreed in an international agreement between the United States and the state of registry.

Thus, for infringement purposes if the infringing activity occurs in outer space on a U.S. registered space object, then an infringement action could be brought in the U.S. unless there is an international agreement to the contrary.

This statute highlights several items. First, international agreements or treaties are critical to the resolution of these issues. Second, it appears that infringement could be avoided by private companies through selection of country of registration. Thus, U.S. patent protection of space-related inventions could potentially encourage private companies who seek to infringe to move to other countries to avoid patent infringement under U.S. laws.

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## MVS MEMBER KIRK HARTUNG RECEIVES YMCA AWARD

On October 27, Kirk Hartung was presented with the Service to Youth Award at the YMCA annual dinner. This is the highest award given by the YMCA of Greater Des Moines to volunteers for lifetime service.

Kirk has served on the Y Camp Board since 1982. He was the board's chair from 2001-03 and 2007-09. Kirk was the chair of Partnership for Youth YMCA Annual Campaign for three years and also chaired two highly successful capital campaigns for Y Camp.

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## WE'RE THERE

### ***October 28***

John Goodhue, Kyle Coleman and Luke Holst presented at the NBI Seminar, "Find it Free and Fast on the Net: Strategies for Legal Research on the Web" in Cedar Rapids, IA.

### ***November 7-9***

Kyle Coleman attended the 2nd Startup Weekend in Sioux Falls, South Dakota where he served as a judge for the competition. Startup weekend is a global movement of entrepreneurs learning how to launch startups.

### ***November 13-15***

Kirk Hartung, Kyle Coleman and Luke Mohrhauser attended the LEGUS International Network of Law Firms Fall meeting in Austin, Texas. Kirk will also attend the Administrative Board meeting on the 13th.

### ***January 2015***

Ed Sease will teach the Spring semester Patent Litigation course at Drake University, Des Moines, IA.

### ***February 22-25, 2015***

Jill Link will attend the Association of University Technology Managers (AUTM) National meeting in New Orleans, LA.

### ***March 22-26, 2015***

Jonathan Kennedy and Dan Lorentzen will attend the American Chemical Society's National Conference in Denver, CO.

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