



Intellectual Property Law Update

We hope everyone is enjoying springtime! In this issue, we address:

- The use of patent and trade secret strategies to protect ideas;
- The recent copyright law case involving the song Blurred Lines;
- Ways of controlling patent prosecution costs and;
- Pending federal legislation impacting data security requirements costs (and a very recent estimate of costs resulting from data breaches)

Patent vs Trade Secret ... or Both?

Those with an idea about how to do something better than it is being done in the market should consider some sort of intellectual property protection for the idea. Typically, the choice is between patent protection and trade secret protection (and sometimes both).

A US patent is usually the more costly and time consuming approach (although micro-capitalization filing fee discounts and provisional applications can be used to reduce cost in many cases). It allows its owner what is essentially a 20 year monopoly on its subject matter, which is embodied in the “claims” of a full application. All efforts to practice the invention, whether independently developed or based upon the work of the patent-holder, are reserved to the patent-holder.

Patents may be obtained with respect to machines, formulae for chemicals or prescription drugs, designs and some business and other processes (although business process patents are subject to greater scrutiny than most others). Patent applications are subject to scrutiny by Patent Office examiners who will address (among other things) how the subject matter comports with existing learning and technology and legal authority. The process may take in excess of two years, although expedited handling is available for additional fees.

Trade secret protection involves no governmental filing, resulting in it being much cheaper and faster than a patent application. It offers perpetual protection so long as the secrecy is maintained, but no protection against independent development. In most cases, the status is secured with physical and electronic secrecy measures and written agreements with employees and contractors.

Such protection may be obtained for most material that has actual or potential economic value, but is most commonly secured for customer and employee lists, pricing and cost data and “know-how” such as manufacturing processes and chemical compounds.

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For the most part, companies and inventors should prefer patent protection where it is available and affordable. However, in cases where the legal and technological environments do not lend themselves to a likely, timely patent grant and/or the potential applicant is unwilling or unable to pay for the legal work and filing fees, trade secret protection should be explored. Even where a patent is available and affordable for an idea, trade secret protection may be helpful for ancillary materials such as operating manuals which pertain to its exploitation.

Our Patent and Intellectual Property partners can help you determine which of these strategies make the most sense in your specific circumstances.

Are Music Copyright Lines Always Blurred? Ask Pharrell!

The recently successful (pending likely appeal) copyright infringement action by the heirs of Marvin Gaye against Pharrell Williams and Robin Thicke over similarities of the latter's recent hit "Blurred Lines" to Mr. Gaye's 1980's songs such as "Got to Give it Up" illustrates several things, relevant not just to songs but to all other types of intellectual property protected by copyright such as books, films, paintings, photographs and software.

First, even "old" materials often maintain copyright protection and need to be considered by those developing new materials which could be arguably similar in any material (sometimes any) respect. Even when there is some difficulty in locating the copyright owner (an issue known in copyright law as "orphan works"), it is often cheaper to locate those owning the copyright, no matter how old, and procure a license than to simply proceed and risk this sort of litigation. While it did not come into play in this case, some courts may also enjoin the more recent song or other intellectual property work in addition to awarding damages.

Second, infringement does not necessarily require identical work or outright plagiarism. Copyright infringement can be proven by showing both (1) substantial similarities between the subject works and (2) access. In this case, substantial similarities in style, combined with admissions by Mr. Thicke and Mr. Williams that they were familiar with and had been inspired by the original work, were enough to convince a jury that the copyright holder should prevail even though the specific chords in Blurred Lines apparently did not entirely match those in Mr. Gaye's work. This finding has been both highly praised and sharply criticized. We are not musicologists and do not comment on the merits of this case. However, readers should understand that juries consist of ordinary people, not experts in the type of work being litigated. Once an intellectual property dispute reaches a jury, a wide range of outcomes is possible, and no matter how incorrect or illogical a jury verdict may seem, it will be difficult (and extremely expensive) to overturn.

Third, some basic elements of contract practice came into play here. Mr. Williams entered into an agreement, apparently with Mr. Thicke, in which he warranted that his composition did not infringe the rights of anyone else. It also appears that he agreed to take responsibility for – that is indemnify – infringement claims of third parties. While commercially customary in the entertainment world and numerous other situations, such commitments should not be taken lightly as mere "boilerplate," and must be fully evaluated in each specific case.

Our IP, Entertainment & Technology partners are pleased to work with copyright owners and creators regarding the implications of this case.



Keeping Down Patent Prosecution Costs

Patent application drafting, filing, prosecution and maintenance can be expensive, particularly when pursuing international filings.

It is important to be cost effective and efficient in managing patent assets because a lot of money and resources can be wasted on improperly managed IP assets. A good patent strategy considers the following issues:

- i) Identify which innovations should be protected.
- ii) Identify in which foreign countries, if any, should patent applications be filed.
- iii) Prioritize the extent of the company's investment in pursuing patents by understanding costs of filing patent applications and prosecuting them to issuance – and evaluating against budget constraints.
- iv) Focus on drafting the strongest and most valuable patent claims.

Even large companies make mistakes in preparing, filing and maintaining patent applications. These mistakes include:

- a) Including just a single granted independent claim when a US patent application can include three independent claims and up to twenty in total for the same filing fee.
- b) Only including claims with “means plus function” limitations, which are now interpreted narrowly by courts and often create a costly litigation issue.
- c) Mistakenly pursuing claims that do not cover the product as sold by the company or as used by end users.
- d) Filing applications in foreign countries with a low likelihood of being granted, maintained or ever enforced. Most non-US applications require yearly fees that escalate over time and patent enforcement is often more difficult compared to the US.

It's important to develop a strategy that reduces both legal and government fees. This usually requires working closely with a patent attorney or patent agent, but startup team members should be actively involved and do some of the initial work themselves to save money and result in a stronger patent. Companies can employ strategies to create cost effective synergies between inventors and patent attorneys.

Pending Data Security Legislation – What does it mean to You? What Does it Cost When a Breach Happens?

The bad news: There have been so many data breaches recently, they are too numerous to list. The good news: The data breaches have resulted in privacy and data security matters having caught the attention of the federal government (and most businesses) like no time before. While we cannot say for sure what (or if) legislation will ultimately pass through Congress, we want to note just a few items that may, in one form or another, be codified into law and impact your business operations.

Privacy and Data Security Requirements. The Proposed Consumer Privacy Bill of Rights Act of 2015 advocated by the Administration [<https://www.whitehouse.gov/sites/default/files/omb/legislative/letters/cpbr-act-of-2015-discussion-draft.pdf>] would impose privacy and data security measures across various industry sectors and sets out several major principles: **Security** (conduct security risk assessments and implement reasonable



security safeguards); **Accountability** (provide training to employees, conduct privacy assessments and adopt privacy by design processes); **Transparency** (provide clear notice of data and privacy practices); **Individual Control** (give individuals control over the processing of their data); **Respect for Context** (process personal data reasonably in light of context or else require conducting of privacy risk analysis); **Focused Collection and Responsible Use** (collect, retain and use data reasonably in light of the context, and delete or de-identify data within a reasonable time after the data's purposes are fulfilled); and **Access and Accuracy** (provide individuals access to their data and take steps to ensure accuracy). It is useful to take the proposals as guidelines for implementation of best practices that address the concerns of consumers and policymakers and an indication that some or all of these best practices may become law, sooner or later. If you have not already done so, you need to promptly adopt basic security practices and contractual protections.

Definition of Sensitive Personal Information. It is important to note the expanding definitions of "personal data" and "sensitive personal data" in proposed federal legislation. Thus, implementation of security procedures would be all the more important across all databases and information exchange points.

Data Breach Notification. The patchwork of 47 (and counting) separate state (plus the District of Columbia, Guam, Puerto Rico and the Virgin Islands) breach notification statutes makes for a compliance nightmare in the event of a data breach. The proposed Personal Data Notification and Protection Act seeks to simplify and standardize the various state data breach notification laws into one federal statute with a single timely notice requirement. However, other federal legislation specifically backs away from preemption of state breach notification laws. Therefore, we must stay tuned while this plays out and continue to monitor state and federal breach notification legislation.

Apart from legal considerations, data breaches are quite expensive for impacted companies. According to the 2014 Cost of Data Breach Study (U.S.) by the Ponemon Institute and IBM (available at <http://goo.gl/ob16d6>), the average cost increased to \$201 per record for each stolen or lost record containing personal identifying information ("PII"). As stated in this study, this average cost includes both direct (e.g., forensic experts, outsourcing hotline support, and providing free credit monitoring subscriptions and discounts for future products and services) and indirect (e.g., in-house investigations and communication, as well as the extrapolated value of customer loss resulting from turnover or diminished customer acquisition rates) expenses incurred by the business as a result of the data breach. If you need a further rationale to start now addressing your contractual and technical exposure for a data breach, consider how many PII customer and employee records you have and do the math.

Our Privacy and Data Security lawyers are pleased to assist you in developing and implementing internal and external data privacy and security practices, policies, and contracts, and to assist in the event of a data breach.

BREAKING NEWS: As this newsletter went to press, the US Supreme Court issued its decision in the *B&B Hardware Inc. v. Hargis Industries Inc.*, trademark case which is likely to have substantial ramifications for trademark owners and their legal advisors. We will have more to say in our next issue, but for now, it should be noted that the Court held, among other things, that so long as the other ordinary elements of issue preclusion are met, when the usages of the mark before the Trademark Trial and Appeal Board ("TTAB") are materially the same as those before a district court, issue preclusion should apply. Regarding "issue preclusion" the Court states: "Sometimes two different tribunals are asked to decide the same issue. When that happens, the decision of the first tribunal usually must be followed by the second, at least if the issue is really the same. Allowing the same issue to be decided more than once wastes litigants' resources and adjudicators' time, and it



encourages parties who lose before one tribunal to shop around for another. The doctrine of collateral estoppel or issue preclusion is designed to prevent this from occurring.” However, the Court also made clear (both in the Court’s majority opinion and in a concurring opinion by Justice Ginsburg) that “for a great many registration decisions issue preclusion obviously will not apply.” The Court’s decision in *B&B Hardware* is likely to cause strategy changes in how parties approach TTAB practice and may cause parties to treat TTAB proceedings involving issues such as likelihood of confusion in the same way which they would treat U.S. District Court proceedings. Our IP partners are pleased to discuss the ramifications of this case for your specific situation.

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