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PATENT AND TRADEMARK DISPUTES

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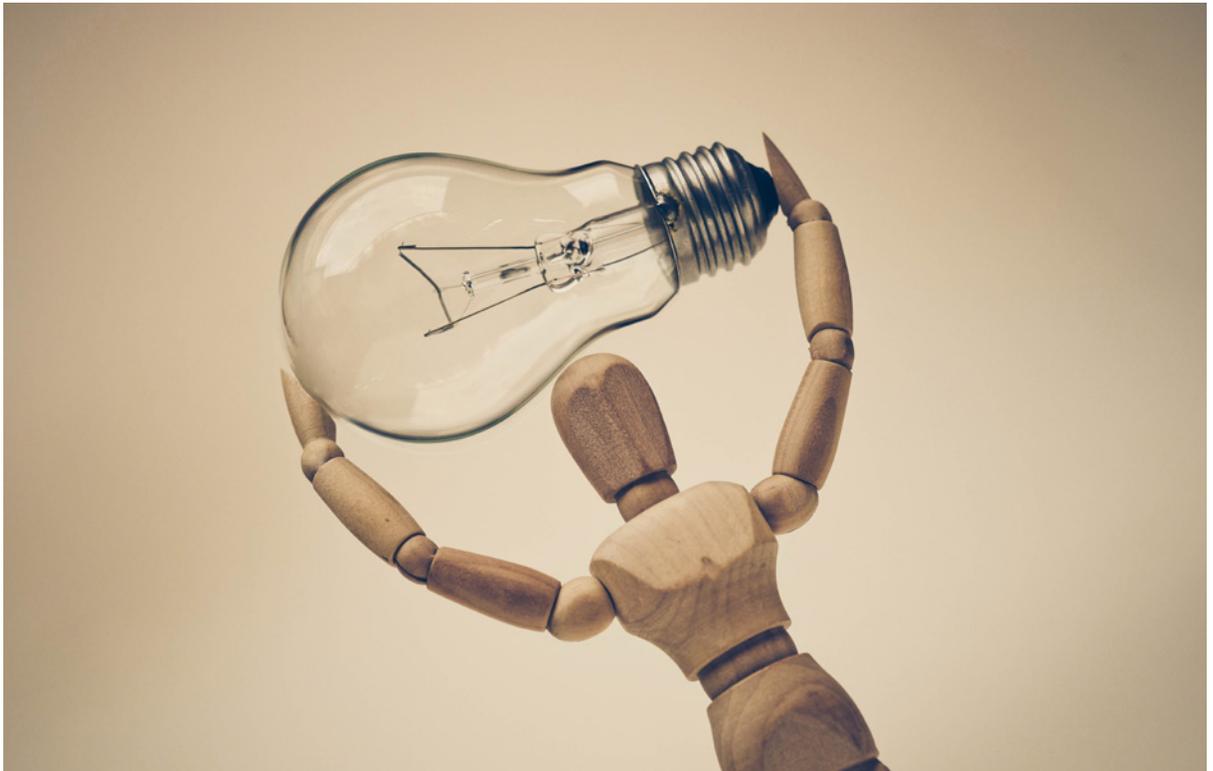
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Davis Polk

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HOT TOPIC

PATENT AND TRADEMARK DISPUTES



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David Lisson is an accomplished trial lawyer and heads Davis Polk's GenAI litigation initiative. Technology companies rely on Mr Lisson in their highest-stakes intellectual property (IP) disputes. He has tried cases in courts nationwide and in the International Trade Commission, securing substantial jury verdicts and settlements on behalf of plaintiffs, and pre- and post-trial judgments on behalf of defendants. He also handles appellate proceedings and works closely with clients to resolve business-critical IP matters outside the courtroom.

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Justin Davidson is a technology lawyer based in Hong Kong and heads the firm's intellectual property (IP) team in Asia. He has extensive experience in IP law and has a strong record advising both multinational and Asian businesses for more than 25 years on a wide range of contentious and non-contentious IP and technology law issues across Asia. He regularly assists clients in protecting and exploiting their IP portfolios and is particularly active advising on complex IP litigation and managing multijurisdictional patent disputes. His practice includes advising on all aspects of IP, from prosecution and litigation to licensing and monetising.

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Tamara Fraizer leads the Squire Patton Boggs' intellectual property (IP) and technology litigation practice in the US and draws on over 20 years of experience. Her work as a patent attorney and litigator allows her to provide tailored IP assessments, opinions and counselling, and to effectively execute on IP matters including patent procurement, post-grant patent proceedings, IP dispute resolution, and the defence and enforcement of IP rights.

CD: To what extent are you seeing an increase in patent and trademark disputes in today's technologically-driven world? What are the most common sources of conflict?

Homrig: Particularly in the technology space, norms about patent enforcement have evolved significantly, leading more companies to find creative ways to monetise their portfolios. With patent enforcement no longer a signal that a company is struggling in the market, highly successful companies today are more likely to spin off portfolios into separate licensing and enforcement entities, to sell patents outright, or even to assert their portfolios in their own names against growing competitors. This has led to an increase in the number of high-quality portfolios at stake in litigation. We have also seen an increase in the intersection between the technology and biotechnology sectors, with more biotechnology innovation driven by artificial intelligence (AI) and other technologies, and an increasing number of patents directed to that intersection. As with any emerging technology, this spawns disputes.

Davidson: There has been an unprecedented increase in the need for interoperability and communication. This is not restricted to communication between people via their smart

phones, but also between devices, such as autonomous vehicles, smart home devices and robots in a smart factory, which all need to talk with other components in order to perform their tasks. This means an ever increasing need to develop more technical standards to enable communication. This has led to increasing disputes relating to standard essential patents and their licensing negotiations. At the same time, we continue to see many unsettled issues for brand owners in the metaverse. Enforcement of trademark rights in the virtual world remains challenging, including on issues such as whether the mark is used in the course of trade, whether the trademark protection extends to virtual items and in which jurisdiction an infringement case should be heard.

Fraizer: US patent litigation has decreased in recent years. In 2023, this was due to fewer filings by patent-monetisation entities, which were subjected to scrutiny in Delaware. Patent litigation by operating companies appears to be on the increase, though. In 2023, we saw lawsuits against e-sellers resulting in default judgments and more lawsuits involving consumer products. These trends may indicate increasing importance of patent litigation for ordinary businesses. Technology is not driving trademark disputes more than in the past but is affecting the evidence brought to bear. For instance, experts are replacing survey evidence with

'sentiment data' that scrapes real-time information from social media and other websites to determine how consumers are reacting to the use of a mark and whether confusion exists. This evidence is 'real' people's sentiment, not reactions to artificial stimuli in a survey experiment, but how it is perceived by juries remains an open question.

Lisson: The last 20 years saw an overwhelming increase in intellectual property (IP) cases filed in US courts, with the sharpest increase occurring through the 2010s. While the number of both patent and trademark cases has since stabilised somewhat, the severity of damages awards in both fields has continued to increase, resulting in further exposure and risk. There really are two main sources of conflict. The first is simply the desire of operating companies to protect and assert their IP rights against other operating companies, whether they be competitors or other companies diluting a mark. The other source of conflict comes from non-practicing entities that only exist to assert claims against operating companies. Those disputes are typically more transactional and less concerned with the core of a company's business but can be a significant nuisance and raise material exposure risk.

CD: What are the key challenges involved in resolving a patent or trademark dispute? What dispute resolution mechanisms are typically available?

"Patent litigation by operating companies appears to be on the increase. In 2023, we saw lawsuits against e-sellers resulting in default judgments and more lawsuits involving consumer products."

*Tamara Fraizer,
Squire Patton Boggs*

Davidson: In patent infringement disputes, parties will often disagree on how the claim should be interpreted and whether a wide or a narrow scope should be afforded to the meaning of a particular word or technical term. The complexity of such a claim construction process is analogous to interpreting the precise legal boundary of a statute, only with an added layer of complexity due to the technical nature of patents. Collection of infringement evidence can also be difficult, especially if the patent claims a new process for

making an existing product. In trademark cases, the issue of whether the allegedly infringing mark and the registered mark are similar is often very subjective. Conclusive proof on consumer confusion can also be tricky. Where a customer survey is used, the questionnaire must be very carefully framed to avoid methodological flaws. The courtroom has traditionally been the designated forum for resolving IP infringement and validity disputes. While arbitration is another possible option, an arbitral decision relating to the validity of patents or trademarks is only enforceable between the arbitral parties and is generally not recognised by national IP offices.

Fraizer: Resolution of a patent or trademark dispute often depends on the nuances of personal discussions between the business principles and their willingness to make a deal. For trademark owners, a consistent and public enforcement campaign can provide leverage for settlement of many disputes. For patent disputes, business decisions are usefully informed by court decisions on the merits, such as interpretation of patent claim language, findings of the Patent Office on the patentability of claims, or 'summary judgment' by the court on key issues of infringement, enforceability or validity of a patent. Many of the US federal district courts have

alternative dispute resolution (ADR) programmes that require litigants to participate in settlement efforts, such as mediation, early neutral case evaluation or a judicial settlement conference. In addition, many courts will supervise private settlement discussions through time-limited stays of the litigation and private conferences.

"If a company is accused of IP infringement, it should promptly seek legal advice and assess the strength of the allegation, including whether it is based on valid IP rights."

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Norton Rose Fulbright*

Lisson: The biggest disagreements often centre on the validity of the right at issue, whether it is being used and, if so, the value of such use, all of which are typically heavily disputed. While the US Patent and Trademark Office (USPTO) issues patents and trademarks, both can be invalidated or cancelled, and an accused infringer will often dispute the validity of a mark or patent as well as whether it infringes. Of course, the parties will

also disagree on the value of any use and thus the licence fees or damages that are appropriate. The USPTO allows companies to challenge patents and trademarks at the Patent Trial and Appeal Board (PTAB) and Trademark Trial and Appeal Board (TTAB), respectively. However, a rights holder must bring both patent and trademark infringement cases in US Federal District Court. Mediation is generally available and sometimes required, but a federal jury will ultimately hear both types of disputes absent a settlement or waiver.

Homrig: Defining the core motivations and goals of the adverse party can be challenging. In a suit brought by a non-practicing patent holder, for example, the motivation may seem straightforward – to collect as much money as possible. But in fact, its motivation may be to validate the portfolio for future licensing efforts or to obtain terms that establish a precedent for future litigation against larger defendants. In competitor cases, the factors are more complex. Is the plaintiff motivated by a desire to build market share by pushing out a competitor? To lower the price of a potential acquisition? To create conditions for a collaboration? Is the accused product even the real target of the litigation effort? Sometimes not. In resolving competitor cases, especially, it is important for the legal team to work closely with the business team to identify the business issues driving the litigation, and

the consequent, and often non-obvious, paths to resolving the dispute.

CD: If a company suspects that its rights have been infringed, or if it is accused of infringing another party's rights, what initial steps need to be taken toward resolution? How important is it to develop a quick and decisive strategy?

Fraizer: In the US, pre-suit allegations of infringement, such as a letter inviting licensing or demanding that the recipient cease and desist its purported practice of a patent, are generally less urgent than claims filed with a court of law. Pre-suit notices of patent infringement are often made to ensure the potential for collection of damages, without any immediate plan for enforcement, but this is not always the case. A party that is put on notice of alleged infringement of a patent or trademark should therefore assess the allegations promptly. To avoid liability and increased damages for wilful infringement, the party should either engage in efforts to obtain a licence, develop a design-around or have a good-faith basis to believe that IP rights are invalid or that it does not infringe. The responsible and regular assessment of infringement issues by both sides is a good business practice that helps ensure business practices are aligned with IP rights.

Homrig: Quick, decisive action is key. Companies should immediately assess the nature of the threat, the stakes and the ultimate goal for resolution, which, oftentimes, is business-oriented, not legal. Close integration between the legal department and the business decision makers is vital to this effort. Once these parameters are defined, they should be communicated to outside counsel and the full team should define specific steps for achieving the stated goals. Furthermore, when US litigation is imminent, it is important to work promptly with outside counsel to implement document retention steps – do not put this off. Many a meritorious claim or defence has been tripped up by a failure to identify and preserve relevant documents.

Lisson: Developing a decisive strategy early is crucial because a company's first steps can have lasting consequences. A company that suspects its rights have been infringed must consider the potential risks and benefits of asserting the rights, whether to send a cease and desist letter and, if so, what to include, and ultimately whether and where it wishes to file suit. A company accused of infringement must carefully consider its response to any notice of alleged infringement, including whether and how to deny infringement, to change its practices, to file challenges at the USPTO or to file countersuits. Each of these decisions will materially impact the way the dispute plays out, including

the forum, the extent of damages, and whether enhanced damages for wilful infringement are at issue.

Davidson: In the event of a potential infringement by a third party, a trademark or patent holder would usually conduct a test purchase to obtain a sample, which would be useful for comparing the marks or to conduct an in-depth technical analysis. If enforcement action is contemplated in mainland China, then such a test purchase should usually be notarised to avoid factual challenges. In most situations, it is worth conducting a prior investigation on the source of the allegedly infringing goods. It is essential to gather all required evidence quickly and before alerting the infringer. Also, any undue delay will usually be unfavourable to the IP owner's arguments for an immediate interim injunction. If a company is accused of IP infringement, it should promptly seek legal advice and assess the strength of the allegation, including whether it is based on valid IP rights, after which the company can then



decide whether to cease the alleged action or rebut the allegation.

CD: Could you outline any recent examples of court cases and judgments with important implications for the patent and trademark dispute arena?

Lisson: In the District of Delaware, Chief Judge Connolly has recently issued orders requiring the identification of any third party litigation funders and the nature of their interest and permitting discovery into the relationship in certain circumstances. He has also issued sanctions on plaintiffs and funders that do not fully comply with his rules and orders. Given the extent of third party litigation funding in all types of IP cases, his approach could have significant implications nationwide, if adopted more broadly. On the trademark side, a jury awarded CPI Security Systems, Inc. nearly \$190m in its case against Vivint Smart Home Inc. in March 2023. The defendant

engaged in some particularly egregious conduct, but the case reflects a trend of substantial verdicts and speaks to the importance of carefully considering your response upon receiving notice of potential infringement in either patent or trademark cases.

Davidson: The recent appeal in the PRC case of *New Balance Athletics, Inc. vs. Jiangxi New Balance Leading Sports Products Co., Ltd*, handed down by China's Supreme People's Court in September 2023, provides a textbook example of the evidence required to substantiate a damages claim. In this case, the Supreme People's Court overturned the lower court's award of RMB5m, at the upper end of the available statutory damages, and recalculated the damages at RMB29m, plus RMB1m for legal fees, based on certain notarised evidence, specifically the defendant's own chairman claiming the defendant's annual revenue exceeded RMB1bn, the proportion of the revenue attributable to the 'New Balance Leading' brand in the defendant's group, the profit margin of the plaintiff from its audit report, and the ratio of infringing products in the defendant's stores, which the court estimated to be 20 percent based on more than 40 notarised test purchases and site-visit reports submitted by the plaintiff.

Homrig: The development of generative AI (GenAI) raises numerous patent and other intellectual property (IP) questions to resolve, including the

patentability of designs made by GenAI. Two recent decisions – one in the US and the other in the UK – hold that, under the current patent regime in these countries, an AI system does not qualify as an inventor. Nor does ownership of the AI system give one the right to its autonomous creations. In the case considered by both courts, Stephen Thaler, a computer scientist, designed an AI system, which in turn designed a thermal mug. Mr Thaler sought patent protection over the mug, asserting that the AI system both designed the mug and recognised its practical utility, and thus qualified as an inventor. The US and UK courts disagreed, finding that the relevant statutes recognise a human, but not a machine, as an inventor. Having been developed by a machine, the mug design was unpatentable. Many questions remain open. For example, would the mug have been patentable if the machine designed it, but the human recognised its utility? But these decisions mark an important development in the application of current patent regimes to GenAI.

Fraizer: In May 2023, the US Supreme Court decision in *Amgen v Sanofi* addressed the requirement that a patent must enable the practice of its claimed invention. The patent at issue claimed a set of antibodies defined by two antibody functions. It described 26 exemplary antibodies and a methodology for finding others. The court found that the patent failed to enable all that it

claimed and cautioned patentees that ‘the more one claims, the more one must enable’. This decision may foster more challenges to validity of patents, especially pharmaceutical and biologics patents, based on lack of enablement. Another example, in June 2023, saw the US Federal Circuit agree to collectively hear the case of *LKQ v GM Global Technology* regarding the standards for obviousness of patented designs. The court sought to resolve the conflict between the *Rosen-Durling* test for obviousness of design patents, which requires prior art having the basic characteristics of the new patented design, and the *KSR* test for obviousness, which requires ‘an expansive and flexible approach’. Oral arguments were heard in February 2024. The court’s decision should clarify requirements for proving obviousness of designs and may affect strategies and outcomes of increasingly common design patent litigation. And, in June 2023, the US Supreme Court decision in *Jack Daniels v. VIP Products* considered applicability of the ‘Rogers’ test where alleged trademark infringement implicates first amendment expression. In *Rogers v. Grimaldi*, a movie about the life of Ginger Rogers, the court held that an expressive work violated trademark law only if the use of the trademark was not relevant to the work and explicitly misleading as to source. In

VIP Products, the court said the Rogers test did not apply because the use of the allegedly infringing mark was a ‘trademark use’ not within the ambit of the Rogers test – thereby limiting the Rogers test to ‘non-trademark uses’. The decision preserves first

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Jeffrey G. Homrig,
Latham & Watkins

amendment rights while strengthening trademark rights, and may engender new litigation at this nexus.

CD: Could you highlight any key legal or regulatory developments which have had a particular impact on patent and trademark disputes?

Davidson: The Mainland Judgments in Civil and Commercial Matters Ordinance came into effect

in Hong Kong on 29 January 2024. This ordinance allows for reciprocal enforcement in China of certain IP judgements made by Hong Kong courts, including those on contractual disputes and infringement of various IP rights, such as patents and trademarks, but excluding judgements on patent infringement and determination of licence fees for standard essential patents. As such, foreign parties may now choose to sue in Hong Kong and enforce, via a simple registration process, against a defendant's assets in mainland China.

Homrig: One ongoing development affecting patent and trademark practice is the evolving capability of AI tools and their use in legal practice. In some applications, AI tools have proven tremendously valuable. One can train a proprietary AI engine to search documents gathered for the case and identify relevant documents for production to the opposing party more quickly, more accurately and less expensively than when conducted by attorneys. AI tools can help identify gaps in prior innovation, and thus opportunities to patent, and can draft claims to match. But these and other tools implicate a variety of ethical concerns, including the confidentiality of client information, ownership of generative work product and degree of supervision applied by attorneys. For example, in several recent

cases, attorneys relied on GenAI to prepare briefs, but failed to review them carefully before submitting them to the court. Unfortunately, the AI generated false citations to non-existent legal decisions, which had severe repercussions for the attorneys and their clients. In this evolving landscape, clients and

“Conduct an assessment of what your most valuable assets are and then invest the time and resources to ensure those assets are properly documented, registered and protected.”

*David Lisson,
Davis Polk*

their attorneys should consider AI tools to reduce legal spend, but must understand them deeply and consider carefully the pros and cons of each tool and whether it best serves the client's interests for the task at hand.

Fraizer: Recent action could change the role of regulatory review of patents in US patent disputes. The Promoting and Respecting Economically Vital American Innovation Leadership Act proposes reforms of the PTAB in favour of patentees, including

allowing challenges only by those threatened with infringement, limiting the number of challenges to a patent, prohibiting litigation of invalidity by the PTAB and court, and requiring clear and convincing evidence at the PTAB as in courts. In addition, the director of the Patent Office has instituted new processes for review of PTAB decisions, including decisions to institute review and final written decisions, and may propose additional changes to PTAB procedures. The Patent Eligibility Restoration Act of 2023 is the latest attempt to clarify what subject matter is eligible for patenting – an issue that has plagued patent owners and patent challengers since the turn of the century.

Lisson: The US Supreme Court addressed two important trademark issues in 2023, which is exceedingly rare. In *Abitron Austria GmbH et al. v. Hetronic International Inc.*, the court held that damages for trademark infringement only extend to domestic use of a mark, establishing an important territorial limit to such claims. On the other hand, in *Jack Daniel's Properties Inc. v. VIP Products LLC*, the court held that the First Amendment did not protect a dog toy that looked like a Jack Daniel's liquor bottle and that the parody constituted trademark use that falls outside of First Amendment protection. We will see how lower courts interpret and apply both cases in the coming years. In Europe, the launch of the Unified Patent Court (UPC) has changed the

landscape for patent infringement suits and has led to an increase in permanent injunctions granted on a much faster timeline. In the US, courts and the USPTO continue to grapple with how AI intersects with patent law, with the USPTO recently issuing guidance on inventorship for AI-assisted inventions and more guidance likely to come in the coming months.

CD: What essential advice would you offer to companies on effectively protecting, monitoring and enforcing their patent and trademark rights?

Lisson: First, be thoughtful on what you protect and how. Conduct an assessment of what your most valuable assets are and then invest the time and resources to ensure those assets are properly documented, registered and protected. Employee education on that front is key. Then, monitor for use of those assets by others, including through market intelligence and, if applicable, automated tools that can identify and track use or copying. If it becomes necessary to enforce your rights, document the evidence and be sure to contact counsel. A company's first steps can have long-lasting consequences, so it will want to make sure it has thought through its strategy and the implications of what it does next.

Fraizer: Trademark owners should not overreach. Trademarks provide a limited right to prevent others from selling or offering goods or services that customers believe to have come from the trademark owner. However, unauthorised use of trademarks must be monitored and action, such as cease and desist letters and litigation, is necessary to preserve their value. A balanced approach that considers the infringing users' market size, harm to the trademark holder, and extent of confusion in the marketplace is recommended. Innovators need to invest in patents, especially if they operate in highly competitive or lucrative markets. Patent quality is as important as quantity, as US patent litigation outcomes tend to favour patent challengers. Development of a strong patent portfolio can both prevent unauthorised use of a company's core innovations and litigation over third-party patents. There are increasing options for the monetisation of patents, providing additional mechanisms for a fiscal return on patents.

Homrig: It is important to be proactive. Companies should define their current space in the market and their technological advances and obtain protection for them. But they should not stop there. It is important for them to identify where their technology and brand is likely to be in five or 10 years and begin to protect that space. And, critically, they need to identify the same information for their competitors and likely competitors, and seek

protection of that space, too. Patents, for example, confer the right to exclude others from practicing the invention. It is thus important to patent technology so that others cannot copy it. But it is equally valuable for a company to obtain, based on its own innovation, patents that cover implementations that it is not using, but that its competitors are using or may use in the future. Doing so gives companies the ability to not only block copies of their products, but also competitive products that use a different implementation. Companies that employ a comprehensive IP strategy think through these issues carefully, implement an IP-protection programme and then reassess at regular intervals to refine that strategy.

Davidson: For patents, it is essential to have a professional draftsman preparing the specification and claims. Once the patent application is filed, the possible breadth of the claims will largely depend on how well the original disclosure was drafted. For trademarks, it is important to monitor closely any similar marks being used in the market, even on unrelated goods or services, since this may result in dilution of the trademark and a weakening of its distinctiveness. In terms of enforcement, there is a current trend for infringement to occur simultaneously in multiple countries due to globalisation. In such circumstances, the plaintiff can choose a pro-IP owner forum to start the litigation

and gain certain advantages. That said, the alleged infringer may resist and seek an anti-suit injunction from its home jurisdiction.

CD: How do you expect patent and trademark disputes to unfold in the years ahead? Is this likely to remain an active sphere of commercial disputes?

Fraizer: Trademark rights are an underutilised aspect of commercial litigation, perhaps because they are inherently fact intensive, with inevitably controversial expert testimony. There may be more trademark claims with increasing use and acceptability of AI-assisted evidence, which should be cheaper to obtain and opine upon and may eventually be more easily admissible and reliable than experimental surveys. In the meantime, trademark litigation will continue to have a limited role in commercial disputes. Patents have historically been a critical feature of business involving high-value technologies and pharmaceuticals, where the cost of patent litigation is justified by the resulting market exclusivity. Recent efforts to increase the acquisition of patents by diverse and under-resourced innovators, combined with increasing availability of litigation finance, may increase the importance of patents for innovative small and mid-sized businesses. For example, patents may be used

to prevent counterfeiting of consumer products and for regulation of e-commerce.

Homrig: The patent and trademarks sector is likely to remain very active for commercial disputes. Innovation is advancing more quickly with every year, and technologies like AI are integrating into nearly every aspect of personal and commercial society. As that happens, companies are motivated to use their IP to carve out market share, to tap into other entities' commercial success and to fend off competitors. This is especially true for emerging technologies, and for emerging applications of existing technologies, where the market is not yet defined. Overall, as the pace of innovation advances, we can expect the pace of disputes to advance.

Davidson: In the coming years, high-profile patent disputes will likely be centred around communication technologies and standard essential patents. AI may also be another active area of development where the legal regulation struggles to keep up with the technological advancements. On the trademark side, brand owners will continue to face challenges in protecting their brands and combatting high quality counterfeits in an online environment, including the metaverse. Furthermore, in a difficult economy, disputes stemming from trademark licences and franchises are also likely to be on the rise. Despite this, cost-conscious

corporates may prefer to settle matters globally via alternative dispute resolution methods rather than commencing multijurisdictional court cases.

Lisson: With jury verdicts continuing to grow, this area is almost certainly going to remain active in the coming years. Litigation funders have become ubiquitous, lowering the costs for companies seeking to assert their rights, while raising settlement costs and risks for accused infringers. High-tech industries such as semiconductors, telecommunications, networking, electronics and software are likely to see continued high levels of patent cases, while companies of all types are likely to remain vigilant in protecting their trademarks in an increasingly digital world. More than simply a cost of doing business, these types of disputes will centre on companies' most important assets and revenue streams. [CD](#)