

# Protecting Intellectual Property in the United States

What to Know as an Entrepreneur Entering the U.S. Market

*By Dorothy R. Auth and John T. Augelli*

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Before entering the U.S. market with a new product, every company should carefully consider protecting the technology and creativity in their products under U.S. law. The company should be sure that patent and trademark applications have been filed in the U.S. Patent & Trademark Office (“USPTO”) *as soon as possible*, but certainly before it sends its first products to the United States. Protecting the intellectual property (“IP”) surrounding new products is a critical step to a successful product launch. Further, knowing what IP your competitors own and how your products avoid infringing their IP will keep your products on the market long after their launch. This article will set out important steps every company should take before entering the U.S. market to protect the IP surrounding their products and to prevent infringing third-party IP in the U.S.

### 1 Recognize the Intellectual Property in Your Product

Take an audit of your product and your company to identify its IP. Intellectual property is often referred to as “creations of the mind” and may take the form of a name, design, original work or invention. For example, IP may be new technology

that goes into a product, it may be originally-written materials, or it may be creative names for products or services. Such IP can be protected under U.S. laws through patents, copyrights, trademarks or trade secrets.

Consider your product: What technology is in it? Is it a mechanical device with custom-designed parts? Is it an electronic device containing software you coded? Does your product have a creative name you developed? In any of these scenarios, you have IP which may be protectable under U.S. laws.

### A. Patents

In the U.S., patent protection may be obtained for a new and useful process, machine, article of manufacture or composition of matter if it is novel, non-obvious and patent-eligible. Companies planning to sell products containing technology in the U.S. should consider filing patent applications in the USPTO before making any public disclosure of that technology to reap the greatest benefits under U.S. patent law. Certain technologies, such as computer software and biological materials, may not be patent-eligible, so consulting with a patent



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specialist is particularly important in these areas of technology. For example, software programs are not patent-eligible when they are merely abstract ideas, algorithms or methods of doing business. As a result, software code is often kept as a trade secret. This strategy can be particularly effective where the software is not directly provided to customers, such as with "software-as-a-service"/ SAAS-related products. In the medical field, biological materials and methods of treating conditions may not be patent-eligible when they are laws of nature or identical to molecules occurring in nature: It instead must be man-made to be patent-eligible. In the pharmaceutical field, this barrier to patent protection can be particularly problematic because tight competition requires companies to obtain patent protection due to regulatory disclosure requirements.

### B. Copyrights

Copyright protection is intended to protect original works of authorship and art. Although filing in the U.S. Copyright Office is not required for protection, federal registration provides a public record and can serve as useful evidence of ownership rights in copyright disputes. Copyright protection may be a valuable tool to protect software programs that may not be considered eligible for patent protection. U.S. federal copyright protection provides an advantage for companies interested in protecting computer software because U.S. law requires only partial disclosure of the software itself and allows redaction of confidential information contained in the source code. In this manner, a copyright registration can be obtained without disclosure of the trade secret information in the code.

### C. Trademarks

Companies should register with the USPTO the names and logos for every product they intend to use with their products. In the U.S., trademark applications may be filed even if the trademark is not yet in use, so long as the applicant can certify it intends to use the mark. This mechanism is helpful for protecting names even before they are in the marketplace and can protect your company from copycats who could try to pass their inferior goods off as yours.

### D. Trade Secrets

Until recently, trade secrets were governed by state law in the United States. However, as of June 2019, a federal trade secret law called the Uniform Trade Secrets Act ("UTSA") has been adopted by all states except New York and North Carolina. The UTSA attempts to create uniformity among the various state trade secret law schemes. The UTSA defines a trade secret as "information ... that (i) derives independent economic value ... from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."<sup>1</sup> The Defend Trade Secrets Act ("DTSA") was signed into law by President Barack Obama in 2016 to further unify trade secrets law in the United States. The DTSA creates a federal cause of action for trade secret misappropriation and its substantive provisions are similar to those of the UTSA.

For certain technologies, trade secret protection may be the best option. For example, because software is updated frequently it may have only short-term value (e.g., 1-3 years) to a company. In contrast, simply obtaining a U.S. patent may require 2-5 years, making patent protection impractical for a software program. In addition, many software programs may not be "patent-eligible" subject matter. These factors weigh against seeking patent protection for software inventions but in favor of trade secret protection. Also, certain manufacturing processes may be better kept as trade secrets because of the difficulty in determining how a product is manufactured.

## 2 Consider What FRAND Obligations You May Have

Modern technology, especially in the field of digital telecommunications, is increasingly reliant on the interoperability of systems and devices. For example, the Institute of Electrical and Electronics Engineers ("IEEE") standard 802.11 governs the WiFi networks that our cellphones, computers, TVs, and countless other devices rely on to connect to the internet.<sup>2</sup> The IEEE is just one example of a standard-setting organization ("SSO") that adopts guidelines and technical



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standards critical for the interoperability and compatibility of modern technology.<sup>3</sup> However, this technology is typically covered by patents, commonly referred to as standard-essential patents (“SEP” or “SEPs”). Owners of SEPs enjoy considerable leverage in licensing negotiations because their patents are directed to technology which is necessarily implicated when designing products to comply with a standard set by an SSO.<sup>4</sup> Licensees are left with little to no recourse – either they have to pay the license fee being requested by the patent owner or they run the risk of infringement litigation.

To combat this scenario (often referred to as a “patent hold-up”), patent owners may wish to agree to license their SEPs on “Fair Reasonable And Non-Discriminatory” terms (thus the term “FRAND” is used). Patentees agree to license their SEPs on FRAND terms in exchange for the SSO adopting standards that are covered by their patents.<sup>5</sup> This serves as a tradeoff for the owner of an SEP: While their licensing rates are now restricted by their FRAND obligations, they also enjoy wider adoption of technology covered by their patents. Consumers benefit as well from the interoperability and compatibility of technology. The following two case studies provide insight into some of the issues surrounding FRAND obligations.

An illustrative example of some of the issues discussed above is a case Huawei brought against Samsung in 2016 with claims for breach of contract and patent infringement. According to Huawei, Samsung earned billions of dollars by selling LTE-compliant products that necessarily used Huawei’s patented technology.<sup>6</sup> In response, Samsung alleged that Huawei breached its FRAND licensing obligations by failing to negotiate in good faith and that Huawei filed actions in China to enjoin Samsung’s Chinese operations to force Samsung into unfair licensing demands. Samsung argued Huawei used its excessive monopoly power as a patent “hold-up” to extract unfair rates for “its patented technology” to the “3GPP 3G and 4G telecommunications standards.”<sup>7</sup> The case was settled and dismissed on March 25, 2019,<sup>8</sup> but it illustrates the challenges that competitors in highly lucrative businesses face in reaching agreements.

In another recent FRAND case, PanOptis filed suit against Huawei alleging patent infringement.<sup>9</sup> Four of the five asserted patents were essential to the LTE standard and therefore were subject to FRAND obligations. On the question of infringement, a jury found that Huawei had infringed the patents and awarded a running royalty to PanOptis for each of the asserted patents.<sup>10</sup> Regarding compliance with FRAND obligations, the parties were unable to reach a licensing agreement after Huawei rejected an offer from PanOptis in 2017 and claimed it was not FRAND-compliant because the offer did not provide a U.S.-specific royalty rate offer. The proposed rates are shown below, with a separate rate proposed for China.

		4G	3G	2G
End User Devices	Major Markets	0.259%	0.077%	0.116%
	Other Markets	0.130%	0.039%	0.058%
	China	0.100%	0.027%	0.048%
Infrastructure Equipment	Major Markets	0.372%	0.062%	0.133%
	Other Markets	0.186%	0.031%	0.067%
	China	0.142%	0.022%	0.055%

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The Judge refused to issue a ruling that PanOptis complied with its FRAND obligations, citing the fact that the offer in 2017 was worldwide in scope. According to the court, “this offer cannot be segregated or analyzed by product, region, or patent; nor has either party attempted to analyze the offer only as to U.S. patents.”<sup>12</sup> While devices in China had a specific royalty rate outlined in the offer, devices in the United States were covered by the “Major Markets” line item which included over 40 countries.<sup>13</sup> This case illustrates that licensing offers are not necessarily compliant with FRAND obligations under U.S. law if the licensing offers are not specific to the U.S.

### 3 Establish Ownership of IP Rights

Unlike many other countries, an inventor filing a patent application in the U.S. owns the rights to her invention unless a written assignment is made to the company employing the inventor. As such, assignment of patent rights by inventors to employers is critical for a company to gain ownership

“ Non-compete clauses in employee agreements provide an important layer of protection from loss of company secrets. ”

rights in company inventions. An important first step in this regard is to require all employees to sign an employee agreement that includes an obligation to assign all inventions developed during the course of their employment to the company. In many countries, inventions made by employees in the course of their employment are largely automatically owned by their company. However, in the U.S., patent applications are filed in the name of the inventor(s) and therefore are by default owned by the inventors, unless an assignment to the company has been executed. As such, it is a best practice for both employee agreements and individual assignments for each invention to be executed by employees who invent during the course of their employment. As for third-party contractors who may be involved in developing company technology, it is important to make clear in their agreements that contractor work is considered a “work for hire” and any resulting inventions are to be owned by the company.

As for trademarks, these must be registered, either federally or by state, in order to definitively establish ownership rights. If not registered, ownership could be contested and copycats could arise. Take the case of the Chinese travel agency China International Travel Service Head Office (“CITS HO”), which was founded in 1954. CITS HO is well known in China’s tourism industry, using the CITS name and the CITS GLOBE DESIGN logo since the 1950’s in China and since the early 1990’s in the United States. However, CITS did not register its trademarks in the United States, so its rights were solely based on common law. In 2003, a second company, unaffiliated with CITS HO, was established in the U.S. They immediately registered and started using the CITS HO’s GLOBE DESIGN and the names CITS and USA CITS. In their trademark application, the second company swore it was the rightful owner of the mark and that “no other person had the right to use the applied for mark in commerce[.]”<sup>14</sup> The second company actively promoted itself using CITS HO and falsely claimed to be “an oversea branch of a large Chinese travel enterprise” on its website in order to confuse the public into believing it was in fact the original CITS HO travel agency.<sup>15</sup> The original CITS HO sued the

second company for common law trademark infringement and ultimately won.<sup>16</sup> However, had the original CITS HO registered its trademarks when it first intended to market and sell its services in the U.S. the entire lawsuit could have been avoided.

## 4 Protect against IP Poachers

The best defense against IP theft is a planned offense. To prevent IP poaching of company secrets it is important to develop a strategy, both with formal contracts, such as strong employment contracts containing clear non-disclosure provisions, as well as an internal employee training program to spot and report rogue employees attempting to steal company secrets. IP theft is not a trivial matter and can have substantial consequences. Consider the case of the former Boeing engineers who stole trade secrets and joined Lockheed to give Lockheed an advantage in a competitive bid for government contracts. The employees were held criminally liable for stealing Boeing trade secrets and sentenced to probation, while Boeing agreed to pay \$615 million to avoid criminal prosecution and the government contracts were withdrawn.<sup>17</sup>

A recent indictment against former Google and Uber employee Anthony Levandowski provides another example of the importance of protecting against IP theft. Mr. Levandowski was indicted on August 15, 2019 for allegedly stealing trade secrets from Google and bringing them to the company he started, which was ultimately bought by Uber. The trade secrets Mr. Levandowski allegedly stole relate to self-driving vehicles, technology both Uber and Google have been investing heavily in. Mr. Levandowski was indicted on 33 counts of theft and attempted theft of trade secrets. While this case is in its infancy, it will provide an interesting case study of IP theft.<sup>18</sup>

Non-compete clauses in employee agreements provide an important layer of protection from loss of company secrets. In the U.S., non-compete clauses are common in employment agreements and, if reasonable, are generally enforceable. These clauses generally impose limitations on the employee’s ability to take a future job with a competitor for a certain time period. An important exception to enforceability of non-compete agreements is in the state

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of California, which is relevant for companies wishing to settle down in Silicon Valley. In California, non-compete agreements are illegal and not enforceable and therefore employees and independent contractors are not bound by the terms of non-compete clauses they may have signed as a condition of their employment. California's strong public policy and statutory prohibition against non-compete provisions trumps any contractual provision designating another state's law as controlling the non-compete clause's validity. Moreover, Labor Code Section 925 states that a provision in any contract requiring an employee to litigate a claim arising in California outside of California may be voided at the request of the employee, unless the employee was represented by an attorney in negotiating the contract.<sup>19</sup> In other words, if the employee primarily works in California but his employment agreement containing a non-compete provision is governed by another state's laws, that non-compete will not be enforceable. However, that same agreement is enforceable if the employee was represented by an attorney in negotiating the agreement. As such, from an employer's perspective, it may be advantageous for high-level employees to be represented by counsel in negotiating their employment agreement to potentially allow the employer to enforce the non-compete clause in California.

## 5 Consider Territoriality of IP Rights

Generally, U.S. intellectual property rights are territorial in nature and are therefore limited to protection in the U.S. In other words, IP rights granted by the U.S. cannot be enforced beyond the U.S. borders. However, several extraterritorial exceptions exist. First, U.S. law considers it an act of patent infringement to supply all or a substantial portion of the components of a patented invention from the United States for assembly abroad into an infringing product.<sup>20</sup> This law imposes patent infringement liability for exporting the components of a patented invention for assembly abroad. In interpreting this provision, courts have held that an exported component need not be a physical item, but, as was the case in *Eolas*<sup>21</sup>, it could be a computer program which is loaded into a computer overseas to form the patented product. Second, under 35 U.S.C. § 271(g),

importing a product into the U.S. made by a process covered by a U.S. patent is patent infringement even if the process occurs outside the U.S.<sup>22</sup> Finally, patent infringement may be found if an infringer sells a system, and “control of the system is exercised and beneficial use of the system is obtained”<sup>23</sup> in the U.S. In the case of *NTP v. RIM*, the system was directed to the BlackBerry® device, which required a handheld device, email redirector software, a BlackBerry® Relay device located in Canada and a wireless network. RIM argued that because the system included the Relay located in Canada there could be no liability. However, because U.S. customers used the handheld devices and benefited from the use of the BlackBerry® system in the U.S., the court held that patent infringement had occurred. These examples illustrate that although U.S. patent protection is generally limited to activities in the U.S., exceptions exist and must be recognized. A careful freedom to operate search is recommended to identify patents that may create risks of infringement and strategic business assessment may be advisable to avoid infringement.

## 6 Consider Restrictions on Inventions Made in the United States

Companies outside the U.S. seeking patent protection for an invention made in the U.S. must take into account certain considerations. For example, when an invention is made in the U.S., a company must wait six months after the U.S. application is filed before filing an application in a foreign country.<sup>24</sup> Permission is usually granted by the Commissioner of Patents to authorize the foreign filing of an application prior to the end of the six-month waiting period. The filing of an application with the USPTO for an invention made in the United States is considered a petition for such license.<sup>25</sup> Both U.S. and foreign companies also should consider national security concerns that may be implicated by their inventions. For example, the Commissioner of Patents has the authority to require certain patents to be kept secret, at the discretion of U.S. government agencies such as the Atomic Energy Commission.<sup>26</sup> These patents can be ordered secret for a period of one year with renewals as long as “the national interest continues to so require” its secrecy.<sup>27</sup>

## 7 Know What IP Can Impact Your Ability To Sell a Product in the U.S.

Several challenges may arise if your company imports products that may be subject to third-party patent rights. First, a U.S. patent holder may seek to block importation of your product at the U.S. border. Such a block, referred to as an Exclusion Order, may be obtained through the International Trade Commission ("ITC"). As an importer, it is important to immediately reach out to an ITC-specialized patent attorney when faced

with an initial complaint filed at the ITC. These cases proceed very quickly and if a party does not respond promptly, a default judgment may quickly lead to an exclusion order and block importation of the affected product. Although the remedy in the ITC is limited to exclusion at the border and cease-and-desist of an already imported product, other actions can impose additional roadblocks to commercialization in the U.S. For example, a patentee may bring an action in a U.S. District Court, which has the authority to award monetary damages, including for

past sales, royalties for future sales in the U.S. and punitive damages for willful infringements. Also, competitors may challenge the validity of your patents in the District Court or in the USPTO.

The take-home lesson is that commercialization of products in the U.S. must be carefully planned to protect all IP associated with the products. It is critical to consult a patent specialist to file or register your IP as well as to develop a strategy to avoid infringement of third-party patents.

### END NOTES

<sup>1</sup> UTSA § 1(4)(i)-(ii) (Unif. Law Comm'n 1979 & 1985 Amend.).

<sup>2</sup> *The Evolution of WiFi Standards: A Look at 802.11a/b/g/n/ac*, Actiontec Blog (June 22, 2017), <https://www.actiontec.com/wifihelp/evolution-wi-fi-standards-look-802-11abgnac/>.

<sup>3</sup> "Cellular standards enable interoperability, *i.e.*, the ability of devices and equipment made by different manufacturers to communicate and work together in a cellular network. In order for mobile devices and telecommunications infrastructure equipment to be commercially viable in the United States and most of the world, it is essential that such devices and equipment comply with 3GPP standards." Complaint ¶ 22, *Huawei Techs. Co. v. Samsung Elecs. Co.*, No. 16-cv-02787-WHO (N.D. Cal. May 24, 2016).

<sup>4</sup> Jeffrey I.D. Lewis, *What Is FRAND All About? The Licensing of Patents Essential to an Accepted Standard*, Cardozo Intell. Prop. L. Alumni Newsletter (Spring 2014), <https://cardozo.yu.edu/what-%E2%80%99Cfrand%E2%80%99D-all-about-licensing-patents-essential-accepted-standard#footnote11>; [https://sites.nationalacademies.org/cs/groups/pgasite/documents/webpage/pgasite\\_072485.pdf](https://sites.nationalacademies.org/cs/groups/pgasite/documents/webpage/pgasite_072485.pdf).

<sup>5</sup> Anne Layne-Farrar *et al.*, *Pricing Patents For Licensing in Standard-Setting Organizations: Making Sense of Frand Commitments*, 74 Antitrust L.J. 671 (2007), [https://heinonline.org/HOL/Page?collection=journals&handle=hein.journals/antil74&id=679&men\\_tab=srchresults](https://heinonline.org/HOL/Page?collection=journals&handle=hein.journals/antil74&id=679&men_tab=srchresults).

<sup>6</sup> Complaint ¶ 49, *Huawei Techs. Co. v. Samsung Elecs. Co.*, No. 16-cv-02787-WHO (N.D. Cal. May 24, 2016).

<sup>7</sup> Answer at 1-2, *Huawei Techs. Co. v. Samsung Elecs. Co.*, No. 16-cv-02787-WHO (N.D. Cal. Aug. 22, 2016).

<sup>8</sup> Joint Stipulation and Order for Dismissal with Prejudice (So Ordered), *Huawei Techs. Co. v. Samsung Elecs. Co.*, No. 16-cv-02787-WHO (N.D. Cal. Mar. 25, 2019).

<sup>9</sup> Complaint, *Optis Wireless Tech., LLC v. Huawei Techs. Co.*, No. 2:17-cv-00123-JRG (E.D. Tex. Feb. 10, 2017); David Long, *Jury Awards Running Royalty for Willfully Infringed SEPs Subject To FRAND Commitment (Optis v. Huawei)* (Aug. 31, 2018), Essential Patent Blog, <https://www.essentialpatentblog.com/2018/08/jury-awards-running-royalty-infringed-seps-optis-v-huawei/>.

<sup>10</sup> Final Judgment, *Optis Wireless Tech., LLC v. Huawei Techs. Co.*, No. 2:17-cv-00123-JRG (E.D. Tex. Mar. 18, 2019).

<sup>11</sup> Memorandum Opinion and Findings of Fact and Conclusions of Law at FF24, *Optis Wireless Tech., LLC v. Huawei Techs. Co.*, No. 2:17-cv-00123-JRG (E.D. Tex. Mar. 18, 2019).

<sup>12</sup> *Id.* at CL3.

<sup>13</sup> *Id.* at FF25.

<sup>14</sup> *China Intl Travel Servs. (USA), Inc. v. China & Asia Travel Serv., Inc.*, No. 08-cv-01293 JSW, 2008 WL 5480840, at \*3 (N.D. Cal. Dec. 18, 2008).

<sup>15</sup> *Id.* at \*3, \*7.

<sup>16</sup> *Id.* at \*8-11.

<sup>17</sup> Civil Settlement Agreement between United States (DOJ, USAF, NASA) and Boeing Co. (June 30, 2006), <https://www.law360.com/>

[articles/7326/attachments/0](https://www.law360.com/articles/7326/attachments/0); US DOJ Press Release, Boeing to Pay United States Record \$615 Million to Resolve Fraud Allegations (June 30, 2006), [https://www.justice.gov/archive/opa/pr/2006/June/06\\_civ\\_412.html](https://www.justice.gov/archive/opa/pr/2006/June/06_civ_412.html); Rachel Kravetz, Boeing To Pay Record \$615M To Quell DOJ Probe (June 30, 2006), <https://www.law360.com/articles/7326/boeing-to-pay-record-615m-to-quell-doj-probe>; Amended Judgment, *United States v. Branch*, No. CR 03-715-RSWL (C.D. Cal. 2007).

<sup>18</sup> Indictment (Sealed), *United States v. Levandowski*, No. CR-19-00377 SVK (N.D. Cal. Aug. 15, 2019); Dorothy Atkins, Ex-Uber Exec Indicted For Stealing Google Self-Driving Car IP (Aug. 27, 2019), <https://www.law360.com/articles/1193029/ex-uber-exec-indicted-for-stealing-google-self-driving-car-ip>.

<sup>19</sup> Cal. Lab. Code § 925 (West 2017).

<sup>20</sup> 35 U.S.C. § 271(f).

<sup>21</sup> *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005).

<sup>22</sup> 35 U.S.C. § 271(g).

<sup>23</sup> *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1317 (Fed. Cir. 2005).

<sup>24</sup> 35 U.S.C. §184.

<sup>25</sup> 37 C.F.R. §5.12.

<sup>26</sup> 35 U.S.C. §181.

<sup>27</sup> *Id.*





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