

# ASSOCIATION OF TECHNOLOGY LAW PROFESSIONALS

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**Trade Secret Owners Beware.** A recent [Third Circuit court case](#) rattled current thinking as to trade secret owners' authority to enforce rights in their intellectual property. Fortunately, the case provided a path for trade secret owners to fully preserve their enforcement rights when making available their trade secret technology to their customers.

In short, the court held that those merely possessing a trade secret may be able to sue for misappropriation – that is, enforcement rights are not exclusive to the owner of the trade secret.

This case (*Advanced Fluid Systems v. Huber* (3<sup>rd</sup> Cir. 2020)) is an appeal of a federal district court case in which Advanced Fluid Systems ("AFS") sued Kevin Huber and others for unauthorized use of trade secrets related to hydraulic technology. Huber took trade secret information from his employer, AFS, presented it to an AFS competitor, Livingston & Haven ("L&H"), then used the information, himself, in a new business he set up to compete against AFS and L&H. Although AFS brought the trade secret suit, AFS did not own the trade secrets in question. Instead, the trade secrets were owned by a third party that indirectly acquired them from AFS. Huber was an engineer on the AFS team that designed and developed the trade secret technology.

The Third Circuit Court upheld the lower court's reasoning that a party asserting a misappropriation claim under [Pennsylvania's version](#) of the [Uniform Trade Secrets Act](#) (the "UTPA") must only show lawful possession of the trade secret, not ownership. The proprietary aspect of a trade secret arises from its secrecy, not from the underlying trade secret information, itself. Trade secret ownership is not irrelevant, but it is not the only interest subject to trade secret protection.

At our Association of Technology Law Professionals meeting in September 2017, we discussed the UTPA, as well as [Texas](#), New York, and [Delaware](#) trade secrets law. (Copies of the handouts are available on request!) We noted that Texas and Delaware trade secret laws (like Pennsylvania's, here) are similar to the UTPA.

For owners of trade secrets, if you want to limit or bar your trade secret licensee from taking legal action against third parties to enforce rights related to your owned trade secret, you should add appropriate language to your license agreement.

**Blockchain: Mind Your Contract Terms.** As noted in a [recent BBC article](#), the distributed ledger technology known as blockchain has been hyped for many years as the solution to countless transaction ills. However, to date, its principal purpose has been to support cryptocurrencies. That said, there are valuable, non-cryptocurrency uses for the technology, including to manage [supply chains](#), to track [inventory](#), and to establish and maintain [verifiable transaction records](#). Businesses are increasingly considering and adopting blockchain – thus requiring their legal counsel to prepare to contract for this burgeoning technology.

As more fully discussed in a [recent King & Fisher blog post](#), there are several key issues to consider when contracting for blockchain technology.

- Because many blockchain technologies are based on open source software, and users of technologies built using open source software can be subject to various restrictions and requirements, take care to identify and review all applicable open source license terms.
- Blockchain products are still new, which means that they may not be as well-tested or debugged as mature technologies. For blockchain vendors and customers, consider appropriate contract terms addressing support, maintenance, and performance warranties for early-stage products.
- Blockchain's purported unparalleled ability to protect the integrity and confidentiality of data and records does not abrogate the needs to carefully examine how the technology treats data and records and to review applicable privacy and security obligations.

- Blockchain is technology – with a unique spin. Technology contracting expertise is wholly relevant when drafting, reviewing, and negotiating blockchain technology agreements, particularly terms regarding technology rights and obligations, intellectual property, representations and warranties, indemnities, and limitations of liability.

**License Restrictions: Covenants or Conditions?** The focus of the First Circuit Court’s opinion in [Photographic Illustrators v. Orgill \(1<sup>st</sup> Cir. 2020\)](#) was whether a sublicense may be granted by implication and whether, under the facts of the case, the sublicensor (Osram Sylvania, Inc.) actually granted an implied license to the sublicensee (Orgill, Inc.). However, the foundation of the case hinged on whether the sublicensable license granted to Sylvania by the principal licensor (Photographic Illustrators (“PIC”)) was subject to a covenant or a condition.

In the applicable license agreement, PIC expressly granted Sylvania a sublicensable license to use certain PIC photographs to market Sylvania’s lightbulbs. A separate agreement provision required Sylvania to include an attribution notice when publishing the licensed photos. Sylvania granted Orgill, one of its distributors, the right to use certain PIC photos, but Orgill did not include the requisite notice when publishing the photographs. Critically, if the notice requirement was a condition, Sylvania’s grant of the license to Orgill exceeded the scope of PIC’s license to Sylvania, and Sylvania would be exposed to copyright infringement claims for its grant to Orgill. On the other hand, if the notice requirement was a covenant, Sylvania’s grant to Orgill would be a breach of contract, instead of copyright infringement. This covenant-versus-

condition issue applies beyond copyright licenses and includes software licenses, technology agreements, and countless other contracts under which use rights are granted.

Whether a use limitation or requirement is a covenant or a condition is important for several reasons, *e.g.*:

- If the limitation or requirement is a condition applicable to rights granted in respect of copyrights, trade secrets, or other intellectual property, failing to satisfy the condition potentially gives rise to an infringement or misappropriation claim, the damages for which often exceed the damages available for breach of a contract covenant.
- If the limitation or requirement is a condition, the contract’s termination provisions may not provide an express right to cure the failure, thus likely giving the licensor greater termination rights than if the limitation or requirement is a contract covenant.
- Contractual limitations of licensee liability frequently exclude licensee violations of the license grant, more so than licensee breaches of contract covenants.
- Especially when the licensed material includes third-party intellectual property, licensors often require licensees to contractually indemnify the licensors for violations of the license grant. Less frequently do licensors extend these indemnification obligations to breaches of contract covenants.

Whether you are a licensor or licensee under a particular contract, be sure to consider if license conditions, or covenants, are in your best interest.

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*The Association of Technology Law Professionals (ATLP) welcomes all members to contribute short articles addressing legal, contractual, operational, or transactional issues of interest or concern to in-house legal counsel involved in drafting, negotiating, implementing, and managing commercial agreements involving or affecting technology. If you are interested in contributing, please contact Eric Begun at [eric.begun@king-fisher.com](mailto:eric.begun@king-fisher.com) or (214) 396-6261.*

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