

# Intellectual Property Infringement in Construction – An Emerging Risk

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# Introduction

Historically, the construction industry's intellectual property risk was primarily associated with copyright infringement. However, as technology evolves, industry lines continue to blur and the potential for patent, trade secret, copyright and trademark infringement is increasing. The construction of a roadway, bridge or building now utilizes innovations such as building information models, 3D printing, green building technologies, alternative design methodologies and scientifically modified building materials. What had been manufacturing risks and technology risks are now construction risks as well.

Given the razor thin margins on which the construction industry operates, the protection of the processes, designs, images and other confidential and proprietary information associated with projects is critical. Intellectual property lawsuits are costly and depending on your insurance coverage and contractual protections, the costs may have a direct impact on your bottom line. Moreover, while verdicts have stabilized over the last couple of years, infringement awards can range from the tens to the hundreds of millions of dollars.

## Types of Intellectual Property



Provide property rights to an invention and exclude others from making, selling, or using the invention. Two types of patents: 1. utility patents which covers processes, machines, or articles of manufacture that are novel, nonobvious, and have some usefulness and 2. design patent which covers any new and original design for an object.

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Protect original works of authorship fixed in a tangible medium. They cover architectural works, blue prints, BIM models, technical designs, inclusive of the asset. When properly registered, the owner of the copyright can collect statutory damages and attorney fees in an infringement case.

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Protect words, phrases, symbols, or designs that distinguish products or services of one business from its competitors. Trademark rights are acquired by use, however registering with the USPTO allows easier enforcement of rights. The TM mark can be used to indicate ownership before approval/registration while the ® indicates the maker has been legally registered.

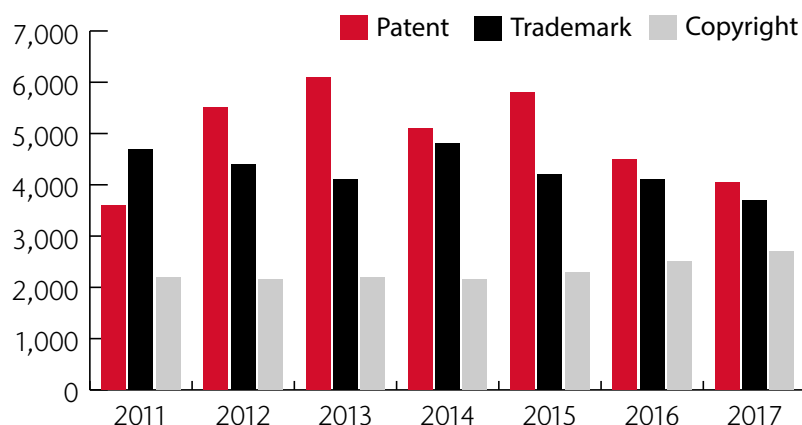
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Protect confidential aspects of the business including methods and other business information. There is no registration process. Instead, owners use non-disclosure agreements and other confidentiality measures.

# Litigation Trends

Unfortunately, there is little data on construction-related intellectual property claims. However, the chart below illustrates the overall trends with respect to intellectual property claims.



## Patent Litigation

Patent lawsuits have steadily declined since 2013 and some speculate that the abolishment of Rule 84 of the Federal Rules of Civil Procedure (and the companion Form 18) in December of 2015 is the primary reason. Rule 84/Form 18 only required a plaintiff: (1) to allege jurisdiction is proper; (2) to allege the plaintiff owned the patent; (3) to allege the defendant had been or was infringing on the patent by making, selling, and/or using a device or product; (4) to notify the defendant of the infringement; and (5) to make a demand for injunctive relief or monetary damages. This was commonly referred to as the “plausibility standard.” In 2017, Plaintiffs were dealt another blow when the U.S. Supreme Court ruled that a corporation “resides” only in its state of incorporation. *T.C. Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514 (2017). This ruling severely curtailed forum shopping and plaintiff-friendly forums, such as the Eastern District of Texas which saw a dramatic decline in filings.

However, the reduction in the number of cases should not necessarily deter those in the construction industry from instituting the proper risk management protocols as patent infringement awards remain high and the duration of litigation has increased. Additionally, an estimated 80% of the cases are now decided by juries, which traditionally tend to be plaintiff-friendly and award greater monetary damages. According to a PwC 2017 litigation study, the annual median damages award between 1997 and 2016 ranged from \$2.0 million to \$17.0 million. The 2016 median award was \$6.1 million. Further, the impact of the U.S. Supreme Court’s rejection of the two-part test set forth in *In re Seagate Technologies, LLC*, 497 F. 3d 1360, 1371<sup>1</sup> has yet to be quantified but will likely ease the way for enhanced damages (3x actual). *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923.

One of the earliest construction industry cases is *Baut v. Pethick Construction Company*, 262 F. Supp. 350 (M.D. Pa 1966). The Bauts owned a patent which covered "art glass" panel construction and were part of a team that bid on the design of a church window. The Bauts' team lost the bid but their "art glass" panel design was incorporated into the plans for the church. When the Bauts learned of the infringement on their patent, they sued and the court ruled in their favor. The court further ruled the GC was liable for having made, used or sold a patented invention. The damage award included: reasonable royalties, lost profits and/or the profits of the defendants. While the case does not identify the monetary damage award, the law allows for the trebling of damages in cases of willful infringement.

### Trade Secret Litigation

Trade secret litigation, on the other hand, is on the rise and could replace patent lawsuits as the new IP risk. While the chart on the previous page does not capture trade secret statistics, a Lexis Advance® docket search for trade secret cases filed in the United States District Court revealed a 67.6% increase in the number of cases from 2015 to 2017. One of the primary reasons for the increase is the passage of the Defend Trade Secret Act (DTSA), 18 U.S.C. 1836, et. seq. ("DTSA"), which became effective in May 2016. DTSA created a private federal cause of action and broadened the definition of trade secret.<sup>2</sup> It also affords expanded remedies, such as treble damages, ex parte civil seizure, and the award of attorneys' fees. The expanded remedies could be especially troublesome for the construction industry should an asset under construction be subject to seizure. This proved to be so in the *Manitowoc Cranes LLC v. Sany America, Inc.* case<sup>3</sup> in which Sany was found liable for

misappropriating Manitowoc's Variable Position Counterweight (VPC) technology, which is used in its cranes. In addition to a cease and desist order, Sany was ordered to pay approximately \$98,000 in damages and \$1 million dollars in attorneys' fees.

For the time period 1990 – 2015, the average damage award was \$21.2M and the largest damage award was \$919.990 million. The effects of DTSA, much like the Halo patent case, have yet to be quantified but one of the first cases to be decided post-DTSA returned an award of \$500,000 for theft of trade secrets; an injunction preventing the use of future trade secrets; and \$2 million for "other claims."<sup>4</sup> These awards present significant risks for the construction industry as it ranks third (behind Information Technology and Miscellaneous Services) in the number of trade secret lawsuits filed in the Federal District Court.<sup>5</sup>

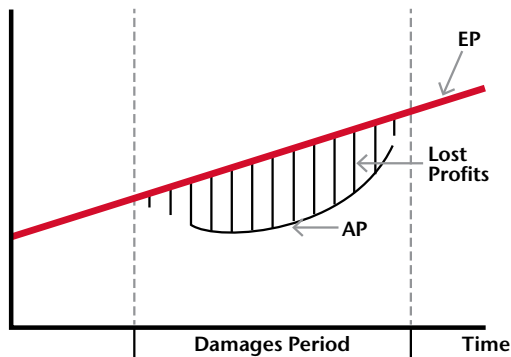
## Trademark Litigation

Trademark litigation has been relatively flat but for a slight spike in 2014, which was the result of National Football League (“NFL”) suits involving the use of player likenesses in their promotional materials.<sup>6</sup>

The costs to litigate trademark suits, estimated to be an average of \$2.5 million, can often outweigh the damage award. In their article “Proving Damages in Trademark Cases,” Stanley Stephenson and Gauri Prakash-Canjels assert that there are two primary reasons for trademark awards being lower than other types of intellectual property awards: (1)

trademark law was created to protect the public and the commercial interests of the trademark holder are secondary and (2) the measure of damages is lost profits and many damage experts only focus on the quantity of sales and fail to measure the pricing differential pre-infringement and post-infringement.<sup>7</sup> Mr. Stephenson and Mr. Prakash-Canjels developed a model to properly quantify damages showing the difference between Expected Profits (EP) and Actual Profits (AP), which could be instructive for construction/development related suits:

**Exhibit 1**  
Damages Period When EP and AP  
Are Well-Defined



**Exhibit 2**

Lost profits as general model can be shown as follows.

Revenue but-for an "event" =  $R_B$   
 And  $R_B = P_B \cdot Q_B$ , where  $P_B$  is the price and  $Q_B$  is the quantity sold but-for the event.  
 Profits but-for the event =  $\Pi_B$   
 $\Pi_B = R_B - F_B - V_B$ , where  $F_B$  is the fixed cost and  $V_B$  is the variable cost (in the but-for world).

Actual revenue after the event =  $R_A$   
 $R_A = P_A \cdot Q_A$ , where  $P_A$  is the actual price and  $Q_A$  is the actual quantity.  
 Actual profits after the event =  $\Pi_A$   
 $\Pi_A = R_A - F_A - V_A$ , where  $F_A$  is the actual fixed cost and  $V_A$  is the actual variable cost. Lost profits is thus expressed as

$$\Pi_B - \Pi_A = (R_B - R_A) - (F_B - F_A) - (V_B - V_A)$$

## Copyright Litigation

Copyright litigation can be divided into file sharing and non-file sharing cases. Non-file sharing copyright cases rebounded from their 2014 low but are not expected to increase substantially. There are two key factors to a copyright infringement lawsuit: (1) whether the copyright is registered and (2) whether the plaintiff elects to pursue actual damages or statutory damages. By registering the copyright a company obtains property rights with respect to the plan, design, or other original work of authorship. Once ownership is established a company can better quantify the lost profits associated with

the infringement. However, quantification of lost profits can be difficult if the copyrighted material is associated with a new venture or if the damages expert, like trademark damage quantification, does not properly account for the pricing differential. Statutory damages, as per their name, are governed by statute and can range between \$200 and \$150,000. If the plaintiff proves that the infringement was willful (with knowledge that the action would infringe on plaintiff's copyright), the award will be toward the higher end of the spectrum.

A recent case that has gained notoriety is *Park v. Skidmore, Owings & Merrill* in which a Georgia architect claims that Skidmore copied a building design he made while a graduate student in Chicago.<sup>8</sup> The design in question is the One World Trade Center tower in New York City. The suit is pending in the U.S. District Court in Manhattan. Given the building in question, the lost profits could be substantial.

# Risk Management and Risk Mitigation

Firms operating in the construction/infrastructure sector can take the following steps to protect themselves from potential infringement: documentation, protection and contractual agreement.

## Documentation

When evaluating new discoveries, make sure to research what has already been accomplished and document how your discovery differs. It's important to keep records of your ideas/discoveries and the dates on which you invented those ideas and keep video or other recorded evidence, if possible. Should you have any meetings with others inside or outside of your organization, document the dates, times, who attended and what was discussed in those meetings.

Documentation can also provide a defense against claims of infringement. One of the key elements of a patent infringement case is that the plaintiff notified the defendant of the alleged infringement. While this seems rather intuitive, it still must be documented and if the plaintiff does not provide sufficient notice, the claim could fail. Alternatively, the notice provides a defendant time to gather evidence to rebut the claim.

## Protection

Insurance can provide some protection against intellectual property claims but it is still developing. There are six potential policies that could provide coverage (and most focus on patent infringement): the Commercial General Liability Policy, the Media Liability Errors and Omissions Policy, the Cyber Risk Policy, the Defense and Indemnity Policy, the Insurance Abatement Policy, and the Patent Defense Cost Only Policy. The Media Liability Errors and Omissions Policy is written specifically for media and entertainment companies and will not be addressed.

**Commercial General Liability:** Section B of the Commercial General Liability ("CGL") policy provides coverage for certain types of advertising injury. The insuring agreement of Coverage B reads:

*We (the insurance carrier) will pay those sums that the insured becomes legally obligated to pay as damage because of "personal and advertising injury" to which this insurance applies . . .*

"Personal and advertising injury" is defined as "injury, including consequential 'bodily injury' arising out of one or more of the following offenses . . . the use of another's advertising idea in your "advertisement" or infringing upon another's copyright, trade dress or slogan in your advertisement." Coverage for trade mark infringement claims under the CGL continues to be an area of controversy. There is a distinct split amongst the Circuit Courts and coverage for other intellectual property claims is less clear.

**Cyber Risk:** Generally covers activities relating to the use or transmission of internet content. There can be coverage for the defense of copyright and trademark infringement lawsuits but it generally does not protect against patent infringement. This is not the most optimal place to seek coverage for IP lawsuits as it is more akin to stand-alone media policies.



**Defense and Indemnity Policies:** These policies only provide a defense against patent infringement claims. The claim must arise out of the insured's use, distribution, advertising, and/or sale of one of its products or ideas. This policy will not cover willful infringement and criminal acts.

**Insurance Abatement:** This provides coverage for the insured's cost of prosecuting alleged infringers.

However, it will not pay for any liability arising out of the insured's infringement of a 3rd party's intellectual property.

**Patent Defense Cost Only Insurance:** This provides coverage for an insured's costs to defend itself in a patent suit in the United States. There is no indemnification under this policy.

## Contractual Agreement

A straight forward approach for construction-related entities to address intellectual property issues is through licensing, provisions within their contracts, and non-disclosure agreements. Under licensing agreements, ideas/concepts protected under patent, copyright and trade secret laws can be used without fear of infringement liability. Trade secrets can also be protected under non-disclosure agreements.

While not widespread yet, intellectual property infringement is a potential emerging risk as the construction industry begins to adopt new technologies and innovative building methodologies and materials. Furthermore, the industry continues to globalize at a fast pace and many large contractors operate in multiple countries, exposing them to cross border infringement risk. It is important for contractors to take time now to put in place documentation plans and review different protection options such as insurance or contractual provisions to avoid litigation down the road.

<sup>1</sup> The Seagate two-part test is as follows: (1) a patent owner must show by clear and convincing evidence that the infringer acted despite an objective likelihood that its actions constituted the infringement of a valid patent, and (2) the patentee must demonstrate, by clear and convincing evidence, that the risk of infringement "was either known" or so obvious that it should have been known to the accused infringer.

<sup>2</sup> The Act defines trade secret as:

*all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if— (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information;*

<sup>18</sup> U.S.C. § 1839(3)

<sup>3</sup> Manitowoc Cranes LLC v. Sany America Inc., No. 1:2013cv006770- Document 81 (E.D. Wis. 2017)

<sup>4</sup> <https://www.stoutadvisory.com/insights/report/trends-in-trade-secret-litigation-report-2017>

<sup>5</sup> [http://www.willamette.com/insights\\_journal/16/spring\\_2016\\_11.pdf](http://www.willamette.com/insights_journal/16/spring_2016_11.pdf)

<sup>6</sup> <https://lexmachina.com/lex-machina-q4-litigation-update/>

<sup>7</sup> <http://www.experts.com/content/articles/stan-stephenson-damages-trademark-cases.pdf>

<sup>8</sup> <https://nypost.com/2017/06/14/architect-claims-firm-stole-one-world-trade-center-design/>

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