

Going to Court: Practical Concerns in Litigating the IP/IT Claim

June 23, 1998

Edward Hore
Hazzard & Hore

Introduction

The best advice usually is: stay out of court. Litigation is expensive, and often slow. As well, it is a distraction. It takes up the time of key employees. Particularly in the IT area, where technology and markets change very fast, this can be counterproductive.

However, like surgery, litigation, though unpleasant, is sometimes necessary.

This talk will focus on:

- the various kinds of information technology litigation that we see in the courts in my experience;
- the nature of the intellectual property or other rights that may be at stake in such litigation; and
- the remedies that are available if you either need to bring a IT claim against someone else, or if one is brought against you.

What kinds of IT lawsuits happen?

Compared with some other industries, e.g. pharmaceuticals, there is comparatively little litigation involving intellectual property/information technology. Perhaps this is because things change too fast in the IT industry for litigation to be practical.

Litigation having to do in some way with information technology, cyberspace, computers, software etc. usually in my experience is in one of the following areas:

Outright piracy: As everyone knows, it is illegal to download proprietary software without a license unless it is shareware or somehow in the public domain, or to make or sell pirated discs. There are some reasonably effective ways of dealing with this through litigation. The issue in such a case is the cost effectiveness of various enforcement procedures. In this context, it is useful to mention *Anton Piller* orders, discussed below. Such a case may also come up in the context of departing employees taking proprietary material with them.

Software copyright infringement disputes: In such a case there is an issue as to whether intellectual property rights are infringed or not. A typical scenario might be that Company A has developed and is marketing software. Some employees leave Company A and start Company B, which “develops” competing software similar to A’s. Company A sues B, but B claims that it developed its source code independently, using methods well known to programmers and therefore not proprietary to A. B says any similarities arise because many of the steps in A’s software are in the public domain. How different must A’s software be from B’s? The answer may involve expert analysis of similarities or differences in the source code. The court may consider the “look and feel” of the software. The cases do not seem to be consistent.

Database/compilation disputes: Such a case may be hi-tech or low-tech. A list of names or contacts or listings can be proprietary information if it is kept confidential, or it may be proprietary because it is a work capable of attracting copyright protection. In the latter case, the question is whether the work is “original”. There are cases saying the issue is the extent of the “sweat of the brow” expended.

Domain name disputes: These have got a lot of press lately. I think another speaker is talking about them. In short, these cases are usually trade-mark disputes, complicated by the international nature of the internet, and the present method for assigning domain names. Domain names ending in “.com, .org or .gov” are given out by a domain name registrar that is a private company called InterNIC or Network Solutions. InterNIC doesn't check intellectual property rights. Enterprising hackers were thus able to grab coke.com and ronald@mcdonalds.com. InterNIC has developed a dispute policy, but it has not solved the problem.

There have been one or two domestic Canadian cases. Normal trade-mark law will apply if both parties are in Canada. Things get complicated if one of the companies is based in a different country. As well, there have been disputes where two parties with the same name, but in different businesses have a dispute.

There is an international turf war at present between the World Intellectual Property Organization (WIPO) and the US government as to how these problems should be dealt with in the future. Everyone seems to agree there should be more generic top level domain

names, and some kind of international arbitration procedure for settling the name disputes. The US and WIPO disagree on the details.

Patent suits: There does not seem to be much patent litigation in Canada about information technology. Software *per se* is at present not patentable in Canada because it is seen as merely a mathematical process or algorithm, rather than an "invention" within the definition of that word in the Canadian *Patent Act*. However, software may be patentable if it is part of some larger physical widget that carries out some function, in the view of the Canadian patent office. For example, a better router used to direct internet messages may well be patentable i.e. a physical machine programmed to do something. Lycos has recently obtained a broad patent in the US for its internet search engine technology which it says many of its competitors may infringe. Many people will remember the dispute some years ago about the Comptons patent, a system for retrieving multimedia information, which had brought claims covering essentially any multimedia product, but it was eventually re-examined by the US Patent and Trade-mark Office and in effect revoked.

The computer system doesn't do what it was supposed to do: These cases are contractual disputes. The typical scenario is: a company buys hardware/software, hoping to improve its accounting/record keeping/order keeping or whatever. Unfortunately, the system does not work as it should. Was the hardware or the software no good? Did the purchaser have unrealistic expectations, or did it perhaps fail to communicate what it wanted? The hardware people blame the software people, and *vice versa*. Such cases can be extremely convoluted, and in my experience generally either settle or fizzle out before trial.

Legal rights typically at issue in IP/IT litigation

It is probably worthwhile to take a minute to discuss the legal rights themselves that may be at the basis of information technology litigation in Canada. They are often confused with each other. In fact, they are quite different, and the principles in each area are often quite different:

- **Copyright:** the sole right to reproduce an original work. A "work" may be software, multimedia or a databases. The work need not be registered to attract copyright protection. Nor need it be "artistic" or "literary." There were extensive changes to the *Copyright Act* in 1997, called Bill C-32, but these did not generally impact on the internet or IT industry. There is confusion as to whether browsing on the internet is a substantial taking that constitutes copyright infringement, with various committees coming up with different positions. These questions will be addressed in Phase III of the reforms to the *Copyright Act*, which may be years away.

- **Trade-mark:** the right to use a proprietary word or design, either registered or unregistered, to distinguish wares or services from those of others. The significance of this in IT-related litigation seems to be mainly in the domain name context, where the situation is in flux.
- **Patents:** the inventor of a new and useful invention is entitled to obtain a patent, entitling the inventor to twenty years exclusive use of the invention from the date the patent was applied for. A patent can be a tremendously valuable right, and litigation on patent-related issues may be extremely complex.
- **Confidential information:** if information is imparted in circumstances where it is understood that it is to be kept confidential, it is actionable to release or use the information without permission. This may apply, for example, to former employees, consultants, former or potential business partners etc. It is always better if there is a confidentiality agreement, although a breach of confidentiality case may sometimes succeed even in the absence of an express agreement. This right can be of profound importance in the Information Technology business.
- **Breach of contract:** We all know what a contract is. Much litigation in the IT area arises because some joint venture agreement, employee agreement, agreement to supply, escrow agreement etc. has allegedly been breached. It is difficult to generalize about such a case, as the circumstances may vary greatly.

If there is litigation, the party that has begun it probably has an interest in getting a successful result or settlement as quickly and effectively as possible. The party on the other side, if there is a legitimate claim, may also have an interest in getting the dispute resolved, in view of the expense and inconvenience of proceeding.

The fact is however that many businesses are from time to time faced by a frivolous claims, or a claim that, for example, may have been brought by a much larger competitor in order to intimidate or harass its competitors. In that case the objective is to somehow get the case dismissed or settled on acceptable terms as quickly as possible.

The court mechanisms for getting claims enforced or disposed of with include the following:

- **The normal discovery and trial process:** A sues B. The parties exchange pleadings. There will typically be productions of documents and discovery. Then the matter eventually goes to trial, if it does not settle first. The length and expense of all this will vary greatly depending on the case. Both the Provincial courts and the Federal

Courts have begun various experiments with both Alternative Dispute Resolution (ADR) and with "case management" by judges, in which there are conference calls or meetings with the judges in an effort to get the case moving along more quickly and efficiently.

- **Interlocutory injunction:** a traditional weapon in the arsenal of the intellectual property litigator. Essentially, it is a court order in the course of the litigation, ordering that one side stop some offending activity or selling the allegedly infringing product before the trial has yet taken place. Such an injunction can be obtained very quickly, sometimes within days, or in an emergency even within hours. There is a complex three part test, namely, does the moving party have a *prima facie* or arguable case, will either side suffer "irreparable harm" if the injunction either is or is not granted, and the "balance of convenience" i.e. which side will have its business disrupted more if the injunction either is or is not granted. An undertaking to pay the other sides' damages, if the injunction is wrongly granted, must be given by the moving party. Interlocutory injunctions have become somewhat more difficult to get in recent years in the Federal Court (the difference between the Federal Court and provincial courts is discussed below);

- **Summary judgment:** If the issues in the case do not call for a trial, either side can bring a summary judgment motion to get either judgment or to get the case dismissed. Instead of a full trial, there is an appearance before a judge on affidavits. A court date can be obtained comparatively quickly. For a plaintiff, this can be a good way to enforce a meritorious claim fast. For a defendant, it may be a way to get rid of a frivolous case at comparatively lower cost. If there is a factual disagreement as to what happened, then summary judgement will probably not be granted because the court will say there should be a trial, so that the judge can watch the demeanor of the witnesses and decide who to believe. Summary judgement seems to have become a somewhat more popular method of dealing with intellectual property claims in recent years.

- **Anton Piller order:** Essentially, this is a search warrant granted to a party in a civil dispute. The name comes from the English case where such a remedy was first granted. The order allows a party to arrive without warning at the premises of the other, and seize documents, infringing material etc. Such an order can be obtained from the court *ex parte*, meaning, without notifying the other party. The side seeking the order must convince the judge that the party to be the target of the search is hiding something or evading the law in some unscrupulous way. An *Anton Piller* order can be a very powerful tool in an enforcement situation involving clear piracy. It may be necessary for the moving party to post a bond with the Court, in case the defendant suffers damage because the order should not have been granted.

- **Alternative Dispute Resolution (ADR) etc:** There are various options involving mediation, or arbitration. These can be done either within the government court system or outside through some private mediation or arbitration service. The idea is that the dispute will be cheaper and quicker to resolve. Such methods work best if both parties have a genuine interest in getting the dispute resolved e.g. two business parties that have an interest in continuing to work together in future. There is also the so called "Private Court" - former judges and lawyers, who may be available to resolve or try a case more quickly than the "real" courts. If there is a mutual interest in getting the matter resolved quickly, such methods should be seriously considered.

A word on the Federal Court and the provincial courts: Civil disputes in Canada are usually brought in the courts of general jurisdiction of the province. In Ontario, this is the Ontario Court (General Division). There is also a Federal Court. It has limited jurisdiction over certain areas under federal jurisdiction, including patents, trade-marks and copyright. These cases can also be brought in the provincial courts, however.

It is becoming more common for intellectual property disputes to be brought in the provincial courts, if an interlocutory injunction is to be sought because appellate decisions in the Federal Court have made it more difficult to get an interlocutory injunction.

Both courts have their pros and cons. There are some differences in procedure, which may or may not be significant in a particular case. In general, the Federal Court judges are thought to have greater expertise in intellectual property cases.