MAYER BROWN

IP IN THE AGE OF AI: LICENSING AND ENFORCEMENT PERSPECTIVES

May 20, 2025

CLAYTON MCCRAW BRIAN NOLAN SPENCER GLENDE

AGENDA

- 1. Patents vs. Trade Secrets in the AI World
- 2. IP Transactions in Recent Cases
- 3. Takeaways for AI and IP Contracting



AI REQUIRES RETHINKING IP

- "Al...is going to transform the way we produce and distribute goods and services, as well as the way we work and live."
- "The broad use of AI technologies will also transform established IP concepts – patents, designs, literary and artistic works, and so on."
 - Francis Gurry, then WIPO Director General (2019)

THE COMPONENTS OF AI TO CONSIDER PROTECTING

01

Algorithms -

Codes and rules by which the AI operates

02

Model -

Outcome of the machinelearning algorithm based upon training data (a set of learned relationships, rules, and other algorithmspecific data structures)

03

Datasets –

Training – data initially used to train the model

Validation – data that helps in tuning the model

Test – unknown to the model and used to test accuracy of the final model

04

Results – Output of a model in use

PATENT VERSUS TRADE SECRET (THE BASICS)

	Property	Rights of owner	Ownership	Requirements
Patent	Inventions (of eligible kinds) that are <u>useful,</u> <u>novel, and non-</u> <u>obvious</u>	Exclude <u>all others</u> from making, using, selling, or importing the claimed invention	Arises from (human) <u>inventorship</u>	Patent must disclose enough to <u>enable one</u> <u>"skilled in the art"</u> to make and use the invention
Trade secret	Information that has <u>value for not being</u> <u>generally known</u> or readily ascertainable	Recourse if others: (1) acquire through <u>improper</u> means, or (2) use or disclose in <u>breach</u> of duty (or after <u>improper</u> acquisition)	Arises from (proper) <u>possession</u>	Owner must take <u>reasonable steps to</u> <u>preserve secrecy</u>

PATENT VERSUS TRADE SECRET (SOME AI CONSIDERATIONS)

	Property	Rights of owner	Ownership	Requirements
Patent	Does the AI <u>transform</u> <u>a device</u> by enabling improvements in the process or the function? What is <u>non-obvious</u> (using AI)?	Is it <u>feasible to tell</u> when others are infringing?	Is there at least one <u>human</u> inventor (with "significant involvement" in conception)?	How does Al affect who is " <u>skilled in the</u> <u>art</u> "?
Trade secret	Does Al's functioning render some of its "secrets" <u>readily</u> <u>ascertainable</u> ?	What are <u>improper</u> <u>means</u> (e.g., prompt injection hacking, using AI to reverse engineer)?	Does AI <u>enable</u> <u>others</u> to properly discover and possess same "secrets"?	What do <u>reasonable</u> <u>steps</u> look like to protect Al—or protect <i>against</i> AI?



REASONABLE MEASURES TO PROTECT AI COMPONENTS

- Reasonable measures typically include nondisclosure and confidentiality agreements, employee trainings, security restrictions, and exit interviews.
- What is reasonable will depend on the particular circumstances, including the company's size, sophistication, and industry.
- Given that both AI and companies' use of it is rapidly evolving, generic practices adopted by a company before its use of AI may be insufficient. Companies should develop measures that identify what aspects of AI a company believes are confidential.
 - If AI can access password protected and encrypted databases, would those protective measures suffice?

SELECTING PATENTS? AI MAY BE DISRUPTIVE TO EXISTING PATENT CONCEPTS

- USPTO has provided some guidance on AI and patent-eligible subject matter analysis, but concerns remain.
 - Present barriers to some components of Al
- Awaiting USPTO guidance on AI generated prior art, impact on the definition of a person of ordinary skill in the art, how we assess obviousness, and the effect of availability/inclusion of AI-generated information on the enablement and written description requirements analysis in view of AI.
 - Al-generated prior art Potential to generate prior art that could hamper competition
 - If Al's capabilities is included with the definition of a person of ordinary skill, how does that affect the obviousness analysis.



WHY CONSIDER TRADE SECRETS AS A TOOL TO PROTECT AI?

- US courts have rejected the notion that AI may be the sole inventor or creator of a patented invention or copyrighted work.
- Certain aspects of generative AI may face challenges overcoming the patent eligibility, written description, enablement, and novelty hurdles to patentability.
- DTSA also defines a "trade secret" broadly to include all forms and types of information so long as it meets certain requirements.

SELECTING PATENTS OR TRADE SECRETS

01	02	03	04
Algorithms –	Model –	Datasets –	Results –
Patent may* be possible Trade secret likely**	Patent may* be possible Trade secret likely**	Cannot patent data set but maybe* data structure	Patent may be possible if significant human inventorship
		Trade secret likely**	Trade secret likely**

* Application must transform device; must have significant human inventorship. Also consider impact of disclosing

** Info must not be not generally known or readily ascertainable; must take reasonable measures to maintain secrecy



IMPROPER MEANS – "PROMPT INJECTION"

- OpenEvidence Inc. alleges* that Pathway Medical improperly obtained trade secrets through submitting dozens of "prompt injection" attacks.
 - "Prompt injection" can cause an AI system to provide proprietary information like the system prompts that govern how the AI operates.
- Asserts that Pathway Medical violated various terms of use, e.g., misrepresentation of user data, showing malicious intent.
- Points to consider:
 - Do reasonable measures to protect exist if a dozen carefully worded prompts can cause AI system to divulge proprietary information?
 - Will the fact that OpenEvidence was able to detect the malicious activity and sought to stop the activity suffice to show that it implemented reasonable measures to protect?
 - Importance of the ability to raise multiple allegations—theft of trade secrets, breach of contract, unfair competition, copyright violations.

"SCRAPING" – IMPROPER MEANS?

- Allegations that Deepseek queried competitor AI models to obtain responses used to train its models.
- Compilations of data may meet the definition of trade secret has independent economic value by not generally known.
 - A compilation of public data may also be a trade secret under the 9th Cir.
 case United States v. Nosal, 676 F.3d 854 (9th Cir. 2012).
- Using computer "scraping" techniques to harvest substantial amounts of data from a data compilation could be found to be use of "improper means."
 - *Compulife Software, Inc. v. Newman*, 111 F.4th 1147 (11th Cir. 2024)
 - Affirmed finding of trade secret misappropriation where a competitor used scraping to obtain millions of insurances quotes from a proprietary database and used the data compete.
 - Does it matter that AI applications are meant to disclose large amounts of information?



TERMS OF USE TO ASSIST TRADE SECRET PROTECTION

Key Provisions for Terms of Use

Only authorized user can access, and only for the intended purpose of AI model

A non-scraping, hacking or prompt injection provision

Alignment with Trade Secret

Violations of provisions may support argument that information was obtained by improper means

Limitations on use coupled with monitoring of use supports argument on (1) breach of duty, and (2) reasonable measures to protect

Provision acknowledging that the data compilation upon which the model was trained and the model parameters are confidential and have economic value. Agreement on confidentiality and acknowledgment of components value could support arguments that owner has defined trade secrets and that the components qualify as trade secrets

OTHER CONTRACT ISSUES TO CONSIDER – AI PLATFORM AND USER COLLABORATIONS

- User data incorporated into platform
 - Expanded datasets, potentially with proprietary data
 - Use for training or improvement
- Ownership of improvements
 - Closed system for the benefit of user
 - Platform provider's ability to continue to improve model

- Access and Use of platform
 - Permitted uses
 - Field of use restrictions
 - Temporal Restrictions
 - Non-compete
 - No reverse engineering
- Confidentiality provision that acknowledges value of components
- Indemnification for use of model

SHOULD A COMPANY RELY UPON TRADE SECRETS OVER PATENTS?

PROS

CONS

SHOULD A COMPANY RELY UPON TRADE SECRETS OVER PATENTS?

PROS

CONS

- 1. Trade secret avoids the barriers of patent protection
- 2. Trade secrecy immediacy helpful in rapidly developing technology
- 3. Unlimited term provided secrecy remains

MAYER BROWN | 16

SHOULD A COMPANY RELY UPON TRADE SECRETS OVER PATENTS?

PROS

CONS

1. Do not provide a monopoly against all competitors

- 2. Independent development and reverse engineering defenses
- May be difficult to detect trade secret misappropriation

MAYER BROWN | 17

IP TRANSACTIONS IN RECENT CASES

- IP Provisions Affecting Standing to Sue
 - Exclusive License vs. Ownership
 - Ambiguous Prior Assignment
- Scope of License or Covenant
- Royalty Provisions
 - Payments After Patent Term
 - Effect on Reasonable-Royalty Damages
- Indemnity



STANDING – IP OWNERSHIP

Standing to sue for IP infringement or misappropriation requires ownership.

• Patents:

- Must own "all substantial rights" in the patent—licensee has no standing to sue, unless license is tantamount to ownership
- If joint owners, each may fully exploit (without consent of others) BUT no standing to sue unless ALL joint owners voluntarily join as plaintiffs

- Trade Secrets:
 - Owner can be anyone who rightfully possesses a trade secret (and maintains it as such)
 - Even joint owners (but note: unless bound by contract or fiduciary duty, disclosure by a joint owner could destroy trade secret)



Example: Does the licensee have litigation standing?

- Inventors assign all rights to invention to University
- University grants exclusive license to Research Foundation
 - License allows University the right to make and develop the invention for internal research, clinical, and educational purposes
 - License silent on who has the right to sue for infringement
 - License stated that infringement damages awards would be shared between University and Research Foundation





UNIV. SOUTH FLORIDA RES. FOUND, INC. V. FUJIFILM MED. SYS., 19 F.4TH 1315 (FED. CIR. 2021)

"While we acknowledge that the license agreement transfers significant rights to USFRF ... we agree with the district court that USF retained enough important rights to conclude that USF did not transfer all substantial rights in the patent."

Upheld district court's dismissal for lack of standing



Example: Does a prior assignment (with carve-out) impact litigation standing?

- Inventor has employment agreement that (generally) assigns to Company all inventions conceived, developed or reduced to practice that "relate to the business or activities of the Company"
 - Carve-out: No assignment of inventions "developed entirely on [inventor's] own time."
- Inventor is accepted into Ph.D. program and Company funds Inventor's Ph.D. research through fellowship program.
- Inventor eventually files a patent on his Ph.D. dissertation.
- Inventor forms Business to commercialize patented invention, and assigns patent to the Business.
- Business sues third party for infringement.



CORE OPTI. TECH. V. NOKIA CORP., 102 F.4TH 1267 (FED. CIR. 2024)

"But Dr. Core was not free to use the entirety of his off-the-clock hours any way he wished without accountability to TRW. His participation in the fellowship program . . . was dependent on his actual pursuit of his PhD research, so he had to spend a large chunk of his off-the-clock time in ways for which he was accountable, financially, to TRW. The contract language, 'entirely on [his] own time,' allows either perspective "



COVENANTS NOT TO SUE

A covenant in which a party having a right of action agrees not to assert that right in litigation.

- May prevent pursuing legal action if the other party breaches the contract.
- Possibly forego potential damages or other remedies that would otherwise be available under the law.

"A covenant not to sue is a promise by the creditor not to sue either permanently or for a limited period. If the promise is one never to sue it operates as a discharge just as does a release. The theory is that should the creditor sue despite his promise not to, the debtor has a **counterclaim for damages for breach of the creditor's covenant not to sue which is equal to and cancels the original claim** ... If the covenant is not to sue for a limited time, the modern view is that the covenant may be raised as an affirmative defense to any action brought in violation of the covenant." John D. Calamari & Joseph M. Perillo, *The Law of Contracts* § 21-11, 878–79 (3d ed. 1987)." *Example: Does scope of covenant leave room for infringement claims?*

- Patentee owns patent on a "multi-function card system"
- Patentee granted covenant-not-to-sue to a Banking Company for claims "relating to Licensed Transactions"
- "Licensed Transaction" defined as "each process of activating or adding value to an account or subaccount"
- Patentee sues Banking Company's downstream customer for patent infringement.
- Downstream customer moves to dismiss based on a license defense.



ALEXSAM, INC. V. AETNA, INC., 119 F.4TH 27 (FED. CIR. 2024)

"The patent claims asserted by AlexSam in the Second Amended Complaint . . . Are not limited to transactions involving activation or adding value. Thus, the scope of the asserted claims is broader than the scope of the license granted to Mastercard in the License Agreement. Consequently, not every act that infringes these claims will necessarily be licensed."



ROYALTIES

- **Post-Term Royalties:** Charging royalties on patents after expiration (20-year term) can be patent misuse, potentially rendering the royalty obligation and patent unenforceable...
 - Unless you draft creatively.
 - Can turn on whether patentee is attempting to extend the duration of the monopoly.
- **Patent Damages:** "Reasonable Royalty" applicable for patent infringement damages may be impacted by contractual terms.



Example: Are patent license royalty obligations still enforceable after the patent term expires?

- Company A licensed patents to Company B so that Company B could develop and commercialize a cancer drug.
- Royalties based on Product sales, though the Products themselves (as opposed to their development) do not practice the patents.
- Royalties payable "on a country-by-country and Product-by-Product basis for a period commencing with the First Commercial Sale in the relevant country and ending ten (10) years after First Commercial Sale; provided, however, in the event that such ten (10) year period for a Product in a particular country ends prior to the expiration of the last [valid patent claim] in such country, then royalties shall be payable in such country until the expiration of last [valid patent claim]"



ARES TRADING S.A. V. DYAX CORP., 114 F.4TH 123 (3D CIR. 2024)

"[A] patent licensee's royalty obligation is unenforceable only if it is calculated based on activity requiring use of inventions after their patents expire. Ares' obligation is not calculated based on activity requiring use of inventions covered by the CAT Patents after their expiration, so it does not improperly prolong the CAT Patents' duration...."



Example: Can a lump sum settlement impact "reasonable royalty" for patent damages in subsequent litigation?

- Patentee executed three lump-sum-payment settlement agreements for same patent.
- Each agreement included a WHEREAS clause stating that lump-sum payment was based on what Patentee believes is \$X per-unit royalty for estimated past and future sales.
- In subsequent patent-infringement trial, jury awards \$20M damages, based on expert's \$X per-unit royalty opinion (citing settlement agreements).
- Infringer appealed arguing that damages opinion was in error based on unreliable methodology.



ECOFACTOR, INC. V. GOOGLE LLC, 104 F.4TH 243 (FED. CIR. 2024)

"[W]e determine that [Expert's] opinion concerning the \$X royalty rate was sufficiently reliable for admissibility purposes. For this reason, we hold that the district court did not abuse its description in denying Google's motion for a new trial on damages."

Currently under en banc review!



INDEMNIFICATION ISSUES

When negotiating IP-infringement indemnity, consider these litigation-impacting questions

- Is the compensation capped? (e.g., no indemnity beyond revenue paid by customer)
- Does it give up control? (e.g., indemnity only if Supplier has right to control the defense of the infringement claim)
- Is it available only after final judgment (years down the road)?
- Does it cover all of the necessary costs associated with litigation?
- What is the dispute resolution process for indemnity-related questions?

TAKEAWAYS FOR AI AND IP CONTRACTING

- Align AI terms of use with trade-secret principles and objectives
 - Agree that info is valuable and trade secret
 - Prohibit prompt injection, scraping, and other uses outside of intended purposes
 - Create duty of confidentiality for any secrets exposed
- Be mindful of how terms treat user-submitted data and resulting improvements to AI platform/data
 - Ownership, rights to use, confidentiality, etc.

- If licensee wants ability to sue infringers:
 - Get full-scope exclusive license giving all substantial rights tantamount to an assignment
 - Otherwise, contractually require patentee to voluntarily join litigation as needed to establish standing

- Make sure chain of title is complete
 - Beware assignment carve-outs
 - If employer wants to own inventions made outside obvious scope of employment, draft accordingly—and beware possible ambiguity of phrases like "on one's own time"
 - Note that some states (including Utah, California, Delaware) have employment-invention statutes that limit what employers may require to be assigned as a condition of employment; may overcome providing separate compensation for the assignment

- Be careful drafting scope of license or covenant not to sue
 - IP owners can tailor scope to leave room for enforcement against the licensee for unwanted (and potentially higher value) activities
 - Licensees should ensure scope fully covers how they intend to practice the IP
 - Often requires analysis of underlying patent claims

- Creative post-patent-term payments may be permissible
 - For example, royalties on activities that don't practice the patent, but were previously enabled by it, or amortized royalties or license fees for in-term use of patent
 - But don't try to extend the duration of the patent monopoly by charging for post-expiration would-be infringement
 - Note: In the Ares v. Dyax case, Ares did not allege other patent misuse (such as tying) but possibly could have; be mindful of those issues when seeking to based royalties on non-infringing activities

- Settlement agreements (might) influence later infringement damages
 - Patent holders should consider making the settlement agreement state how amounts were calculated as an estimate of royalties...
 - if (and probably only if) the calculation would be a useful precedent in future efforts to recover reasonable royalties from other infringers
 - Continue to watch *Ecofactor v. Google*
- Evaluate indemnity provisions from a real-world litigation standpoint

MAYER | BROWN

Mayer Brown is a global services provider comprising associated legal practices that are separate entities, including Mayer Brown LLP (Illinois, USA), Mayer Brown International LLP (England), Mayer Brown (a Hong Kong partnership) and Tauil & Chequer Advogados (a Brazilian law partnership) (collectively the "Mayer Brown Practices") and non-legal service providers, which provide consultancy services (the "Mayer Brown Consultancies"). The Mayer Brown Practices and Mayer Brown Consultancies consulta