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GROWING A MOVING COMPANY TAKES HEAVY LIFTING

STRATEGIES FROM 3 COMPANIES THAT EXPANDED THEIR MOVING AND STORAGE BUSINESSES

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PATENT TROLLS VS. TRANSPORTATION COMPANIES

CONTRACT TIPS TO HELP AVOID PAYING THE TOLL

By Jonathan Todd and Justin Clark

Transportation companies have become prime targets for patent infringement lawsuits in recent years. Some mistakenly assume that technology companies are the only companies subject to infringement claims. However, the use of any alleged infringing technology or service also subjects transportation and logistics providers to expensive lawsuits and licensing fees.

WHY ARE TRANSPORTATION COMPANIES TARGETED?

Patent trolls (or nonpracticing entities) operate on the business model of holding patent portfolios in the sole interest of monetization through litigation. A number of patent troll plaintiffs have been widely reported as targeting the transportation and logistics sector. For example, a nonpracticing firm known as Shipping and Transit LLC was America's biggest filer of patent suits in 2016. Shipping and Transit has been threatening to file lawsuits and, in fact, litigating against companies that provide notification of deliveries to customers. Telematics, geofencing and asset tracking—whether cellular or satellite—are also hot areas for alleging infringement in the transportation field.

The growth in patent troll activity in the transportation field is due in large part to recent changes in the way transportation and logistics providers conduct business. Technology

is an increasingly significant part of today's transportation value proposition, in which optimizing logistics networks is essential to driving efficiencies in the supply chains they support. The Transportation (TMS), Warehouse (WMS) and Order (OMS) Management Systems implemented or homegrown in transportation providers invariably are either proprietary or use licensed technology. In either case, the patent trolls may come knocking based on the actual functionality provided by the technology. If patent infringement is alleged, then the transportation provider instantly becomes a potential defendant by virtue of its mere use of the subject technology.

TARGETING SMALLER COMPANIES

Transportation defendants are often small or midsize companies that are more likely to respond to intimidation by negotiating a settlement involving the payment of a license fee rather than facing the uncertainties of patent litigation. Patent trolls know this reality all too well, and they use it to their advantage. Many transportation defendants find that they did not pay close attention to reviewing and negotiating the relevant provisions in their contracts when purchasing the underlying technology. All are astonished by the license fees demanded for past and future use of the underlying technology, which can easily exceed tens of thousands of dollars as the cost to continue conducting business as usual.

The best way a transportation and logistics provider can protect itself from the license fees, court costs and damages is to carefully negotiate the technology agreements that support hardware and software license, lease or development. The following are the most important user-favorable clauses that can often help protect the buyer or licensee of technology.

- **Representations and Warranties:** Require representations and warranties so the underlying technology and its functionality will not violate the intellectual property or other proprietary rights of any third party in any jurisdiction of use. This gives buyers or licensees the peace of mind that the vendor stands behind its products and warrants the right of use.
- **Indemnification:** Negotiate broad defense and indemnity in the event of any intellectual property claim arising out of or relating to use of the technology. Indemnification provisions often include specific procedures regarding notice and defense, which will provide a roadmap for how the vendor will respond in the event of a claim.
- **Limitations of Liability:** Avoid any limitation of liability to the vendor's obligation of indemnity against third-party intellectual property claims, including limitation to available insurance. The cost of defense and indemnity can run to well over $1 million, leaving the buyer without recourse beyond a limitation.

Transportation companies that are engaged in hardware and software license, lease or development should consult with an experienced attorney to review and negotiate these and other contract provisions to ensure the greatest protection.

HAVE AN UNDERLYING TECHNOLOGY CONTRACT

Unsuspecting transportation companies typically learn they are being targeted by patent trolls via cleverly worded "licensing opportunity" letters from the plaintiff's attorneys, demanding the payment of license fees in settlement. More aggressive patent trolls will sometimes initiate negotiations with the filing of a suit. In either case, the patent troll business model is based on one goal—to earn the highest fees as quickly as possible. Transportation companies want to end the threat of litigation as quickly and inexpensively as possible. The path to a swift and favorable result lies squarely in the underlying technology contracts.

Unsuspecting transportation companies typically learn that they are targeted by patent trolls when they receive cleverly worded "licensing opportunity" letters from the plaintiff's attorneys demanding the payment of license fees in settlement.

If your transportation and logistics technology draws the aim of a patent troll, your attorney will assist in conducting an audit of the underlying technologies as well as the licenses and other contracts (including development agreements) supporting those technologies. Your technology providers will be put on notice as soon as possible of the alleged infringement in accordance with the indemnification provisions found in your contracts. With well-drafted contracts, your technology providers may bear the entire defense and associated costs of litigation. This, of course, is what you would expect from vendors providing your mission-critical technologies. ■

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