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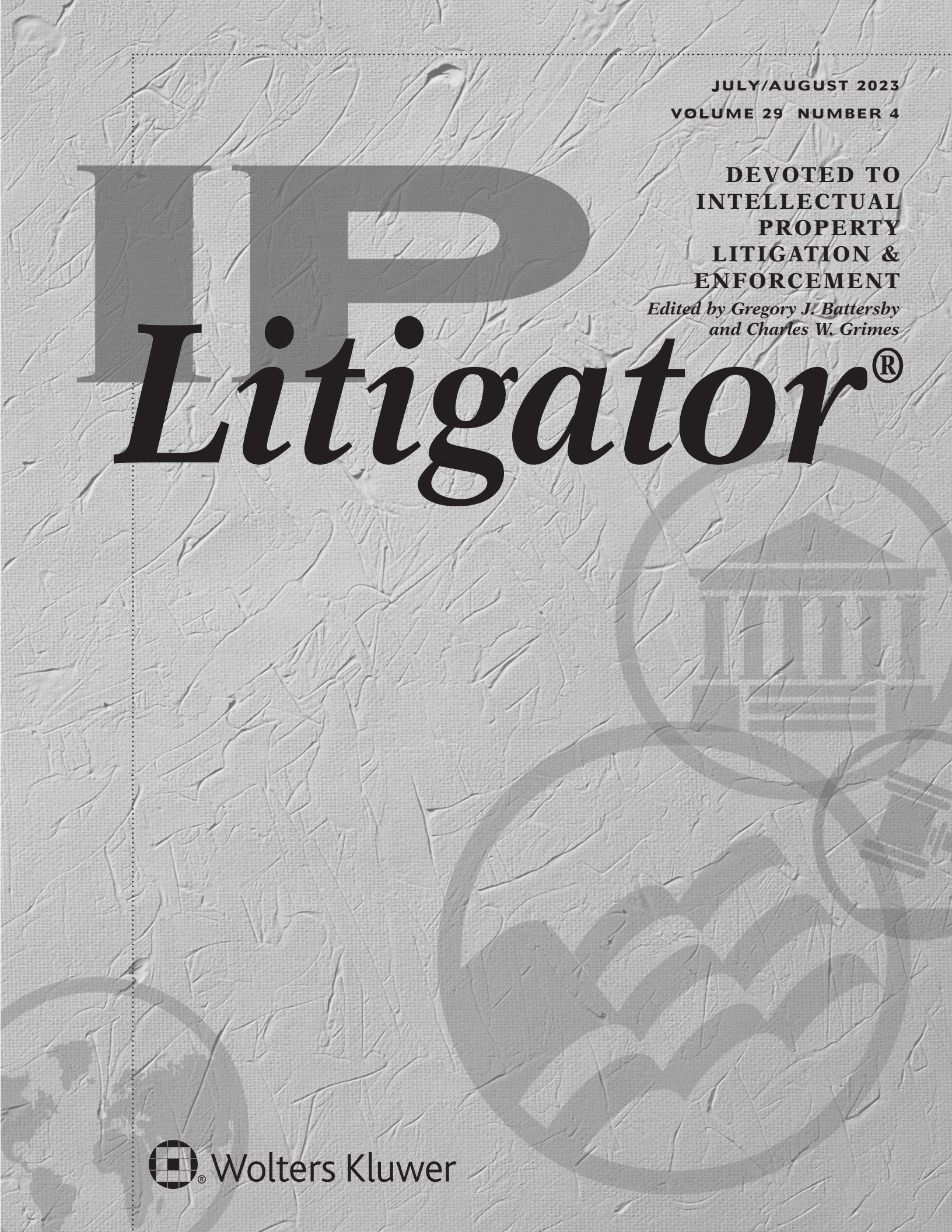

Wolters Kluwer

Decentralized Autonomous Organizations (DAOs) as Patent Litigants

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DAOs are an increasingly popular way to organize technical projects, especially for developing crypto-financial systems. By some metrics, DAOs have over $20 billion in total capital locked in them.[1] If this trend continues, DAOs could fulfill the role previously filled by traditional companies and increasingly open themselves up to patent litigation.

In theory, a DAO is an organization with no central leadership, managed by its members. But how the members govern the DAO varies greatly. One common way is through the use of a "governance token" that can be used to vote on propositions. Given the novel way they are managed, DAOs have many unique properties related to how they engage in litigation. Here, we provide an overview of issues related to DAOs in patent litigation. This is important because DAOs are rising in prominence and are used to manage capital in an increasing number of technology areas.[2]

DAOs Enforcing Patent Rights

Undoubtedly, DAOs have developed technologies in the decentralized finance (DeFi) technology space. As DAOs coordinate increasingly complicated technical work, they may be used to generate novel ideas that qualify for patent protection. Currently, a DAO's work is most commonly done by volunteers[3] or through work for hire. In these cases, intellectual property (IP) rights are typically a minor consideration compared with the larger goals of the DAO. In particular, DAOs typically draw heavily from those in the open-source software community and those with the open-source ethos. Therefore, those drawn to work in DAOs often view patent rights skeptically, meaning that filing for patent protection is not typically a high priority.

Despite this, as people invest more of their time and resources into DAOs, at least some will want to cover the rights in any new technologies the DAO develops. In this manner, they can protect the mission of the DAO from what they may view as free riders. There are certainly some unique considerations with DAOs obtaining patents. As a threshold issue, a DAO would likely need a legal entity to assign the rights to the patent. While some DAOs have taken on a recognized corporate form, others operate without any specific legally recognized form.

As DAOs are often not focused on protecting their IP, they may not do the necessary planning to obtain a patent. For example, because much of the work done by DAOs is done in the open, this may commit any patentable ideas to the public if a patent application is not timely filed. To obtain a patent, the DAO would also need to invest at least some of its resources in hiring patent counsel to file the patents, which would take resources away from its core mission. There may also be complicated inventorship issues dealing with whether those working on behalf of the DAO must assign any IP they generate to the DAO, as those working may be doing so on a volunteer or ad hoc basis. Finally, even if a patent is granted, getting the DAO to agree to assert the patent may be difficult. As mentioned, DAOs typically include many members skeptical of patent rights. Depending on how the DAO is organized, it may need most members to sign off on hiring patent litigation counsel and asserting those patents against another party.

Despite these hurdles, as more experiment with DAOs for organizing projects, the chance they will acquire patents increases. When the number of patents increases, the likelihood of patent litigation increases. This will be an area to monitor, and the first patent cases brought by a

DAO will raise many novel issues in the field of patent litigation.

DAOs Defending Against Allegations of Patent Infringement

As DAOs are organizing increasingly complicated technical projects, they will likely have to contend with the patents held by others. However, DAOs have properties that make it complicated to engage with them in civil litigation. Two recent patent cases against MakerDAO and Compound Protocols — both alleged to be DAOs by the same plaintiff asserting the same patent — have highlighted some of these issues.

As their name implies, DAOs are "decentralized" and often do not have an agent that can be served with a lawsuit. So, if the DAO has chosen not to take a formal legal entity form (LLC, etc.), it may be difficult to serve the DAO with a complaint for a civil lawsuit.[4] However, courts have already started to pave the way for creative forms of service on DAOs. In the first two patent litigation cases against DAOs,[5] the courts have allowed "alternative means of service" in the form of sending the complaint to various publicly disclosed contact points for the organizations, including posting the complaint in public forums and sending it to Twitter addresses. In a nonpatent case, the Commodity Futures Trading Commission (CFTC) served the members of Ooki DAO by posting its complaint in a chatbot channel used by the DAO's members.[6] In another case pending in New York State court, defendants were served a temporary restraining order via a non-fungible token (NFT) being airdropped to their account, which contained a hyperlink to the order to show cause.[7] While this case does not relate to a DAO, it does show that new service methods are being considered where the defendants of a lawsuit are difficult to identify other than by an address on a blockchain. Certainly, it appears that courts are unlikely to find that there is no way to serve a DAO.

After service on a DAO, the next question is whether anyone from the DAO will show up to defend the lawsuit. Given the incentives at issue for a DAO, which has decentralized control, this can be a complicated collective action problem. Defending a patent case can be costly and is generally not something someone volunteers to do. In the case of both MakerDAO and Compound Protocol, no one claiming to represent the DAOs immediately stepped in to defend the cases. In the case of MakerDAO, a group calling itself the Crypto Council for Innovation (CCI) instead appeared and wanted to present a defense to the allegations against MakerDAO as an amicus curiae. The court recently denied this attempt because it found that the legal and technical issues involved should be addressed by a party to the litigation and because it found that CCI was not an "objective, neutral, dispassionate friend of the court." In the Compound Protocol case, the party Compound Labs, which is a legal entity, asked to intervene in the case as a party. The court in that matter has not yet ruled on this request. The plaintiff has requested that the court enter a default judgment in both cases, but this also has not been ruled on. In the CFTC case against Ooki DAO, however, the court did enter a default judgment with monetary damages, but it is not clear if and how the CFTC will enforce this judgment.

Some have argued that DAOs can be made effectively judgment-proof. Most patent cases seek monetary damages in the form of a reasonable royalty, and if it is difficult or impossible to collect from a DAO, this will change the calculation of whether a case is filed. An open question is where this money would come from if a DAO were found liable for infringement. As noted above, some DAOs have substantial treasuries, but they are typically locked up with smart contracts that limit the withdrawal of funds. Even if a judgment is obtained, a plaintiff still needs to force those with voting power to release the funds resulting from the lawsuit. This could be difficult, as the members of DAOs can be pseudo-anonymous and difficult to track down. Additionally, many are likely outside the United States and may not feel pressured to release the funds even if they are identified. In these cases, a litigant may need to chase down individual members located in the United States to recover. Further, plaintiffs seeking an injunction on using the patented invention also have the problem that they cannot enforce this against those outside the United States, who, in the case of software, could make it available for anyone to download.

An additional complicating factor is that it may be difficult to ascertain who the infringer is if multiple different parties work independently. For example, software for a potentially infringing computer network may be developed by multiple programmers worldwide. The software may also be available for download from many different parties scattered across the globe. Putting aside the difficulty in determining who these people are, they may be based outside the United States, when U.S. patents are only enforceable on activity inside the United States.

DAOs also have structural issues that may work against them in civil litigation. First, their decentralized nature could make coordinating and retaining counsel difficult. This can be seen in the case of MakerDAO, which is believed to have over $45 million in its treasury but has not yet had counsel appear to defend the lawsuit against

it.[8] Depending on the form of the DAO, there may also be open questions about who the actual client is and how to structure an engagement with a DAO. Additionally, the fact that the work and deliberations of the DAO are often accessible to outsiders could make it easier for those wanting to gather evidence of patent infringement to find detailed technical information that may be treated as confidential in a traditional company.

Conclusion

DAOs are facing a critical crossroads as an organizational structure. It remains to be seen if they will seek to become more similar to traditional companies that acquire IP rights and defend themselves in court when accused of patent infringement.

1. See *https://deepdao.io/organizations.*
2. See "The Rise and Recognition of the Dao," at *https://www.kramerlevin.com/en/perspectives-search/the-rise-and-recognition-of-the-dao.html.*
3. These "volunteers" may include those who own the governance token of the DAO, which may be tradable on exchanges much like other crypto tokens, such as Bitcoin or Ether. Generally, it is believed that the better the DAO does, the more valuable the token becomes and the more incentive it provides to work for the DAO.
4. DAOs are frequently used without any specific corporate structure. They can also be "wrapped" in a corporate form such as an LLC. An increasing number of jurisdictions have enacted DAO-specific corporate structures that can be used as a wrapper for DAOs. These types of DAOs are required to designate agents that can be served.
5. *True Return v. MakerDAO*, SDNY-1-22-cv-08478, and *True Return v. Compound Protocol*, SDNY-1-22-cv-08483. Notably, those seeking to represent Compound Protocol have argued that what True Return is suing is a software protocol and not a DAO or any other type of organization.
6. See "CTFC Bypassed Legal Requirement in Trying to Service OOKI DAO, Supporters Claim" at *https://www.coindesk.com/policy/2022/11½2/cftc-bypassed-legal-requirement-in-trying-to-serve-ooki-dao-crypto-supporters-claim/.*
7. See "Serving Process by Airdropping NFTS: The Next Frontier?" at *https://www.law.com/newyorklawjournal/2022/09/26/serving-process-by-airdropping-nfts-the-next-frontier/?slreturn=20230529055902.*
8. See *https://deepdao.io/organization/c41f87df-35a6-4a37-82c4-62cd5a3a8c08/organization_data/finance.*