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## JORDA INDUCTED INTO IP HALL OF FAME

PROFESSOR KARL F. JORDA, one of nine individuals was inducted into the Intellectual Property Hall of Fame in 2007. He was chosen from a field of over 300 nominations solicited from members of the global intellectual property community. The Intellectual Property Hall of Fame was established in 2005 by *Intellectual Asset Management* magazine (London) and is designed to honor those who have made an outstanding contribution to the development of intellectual property law and practice, thereby helping to establish intellectual property as one of the key business assets of the 21st century. Induction into the Intellectual Property Hall of Fame took place on October 24 at a Gala Dinner at the Field Museum in Chicago, hosted by Ocean Tomo, the Intellectual Asset Merchant Bank of intellectual property auction fame. Induction into this Hall of Fame includes membership in the Intellectual Property Hall of Fame Academy. ■

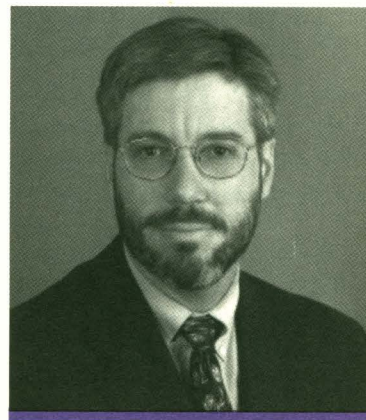
## PORTRAIT: RICHARD WILDER (JD '84)

BY NICHOLAS SIDELNIK (JD '08)

WHEN ASKED WHAT WORDS OF ADVICE HE HAD for those beginning their careers, Richard (Dick) Wilder's advice was "Do what you really want to do." It would appear that Dick Wilder really wanted to do a lot of things. Wilder has been an engineer for General Electric, a corporate attorney, a law professor in Malaysia, a legal officer for WIPO...twice, a legal officer with the United States Patent and Trademark Office (USPTO), a partner at a major international law firm, and most recently, Associate General Counsel for Intellectual Property policy for Microsoft. Wilder's career has literally taken him around the world.

Dick Wilder grew up in Washington State and attended the University of Washington, where he studied mechanical engineering. After graduation, he took a job with General Electric, specializing in electrical power generation. Working for GE took him from the U.S. to Venezuela, Singapore, Saudi Arabia and other countries. After three years at GE, Wilder considered his career prospects as an engineer. Looking for broader opportunities, he decided to seek a career at the intersection of the law and science and technology.

Wilder enrolled at Franklin Pierce Law Center, graduating in 1984. He was intrigued by the IP focus of the school. He was also impressed by the faculty's genuine interest in international and foreign law and practice. After graduation, Wilder took a junior patent attorney position with Perkin-Elmer—in the optics and semiconductor equipment groups. Wilder stayed at Perkin-Elmer for a year and half before again seizing the opportunity to work internationally. He took a teaching position in Malaysia, which was transitioning from an intellectual



RICHARD WILDER

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Created in 1985 through the generosity of Kenneth J. and Pauline Germeshausen, the Germeshausen Center is the umbrella organization for Pierce Law's specialization and policy studies in the legal protection, management and transfer of intellectual property, especially relating to the commercialization of technology. The Germeshausen Center Newsletter is published two times a year for alumni/ae, students and friends of Pierce Law.

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# IP FACULTY ACTIVITIES

BY CAROL RUH

**Professor Tom Field's** new edition of *Fundamentals of Intellectual Property* is now available. The complete 468-page text (14 megabyte) can be downloaded from <http://www.piercelaw.edu/TFIELD/funIPbk.pdf>. Printed and bound copies are available at Town & Country Reprographics: [csr.reprographic.com](http://csr.reprographic.com).

\* \*

**Distinguished Visiting Professor of Patents, Jeff Hawley** spoke on "How to Maximize the Value of Your IP Assets Globally" at the Practising Law Institute's 13th Annual Institute on IP in San Francisco, CA on October 5.

\* \*

**Professor William Hennessey** has been invited to join a new IP initiative created in China by the U.S. Chamber of Commerce and the U.S. Embassy in Beijing, following the April 9, 2007 announcement by the U.S. that it will seek dispute settlement with China in the World Trade Organization over China's inadequate enforcement of its IP laws. The Chamber's new initiative, the IP Working Group, is seeking to strengthen ongoing collaboration with IP authorities in a number of Chinese provinces, including Jiangsu, and to promote more effective enforcement and increase IP awareness in the provinces.

\* \*

**Professors William Hennessey and Mary Wong** attended the 4th International Conference on IP Protection for High Technology October 28 and 29 in Beijing. The conference is jointly organized by Tsinghua School of Law and Harvard Law School. **Hennessey** is one of the conference co-chairs and **Wong** presented a lecture at the conference.

\* \*

**Professor Karen Hersey** presented a 40-hour intensive course at Universidad Austral law school in Buenos Aires August 12-September 12 entitled "Management of Knowledge, Intellectual Property and Technology Transfer." On October 4 **Professor Hersey** presented a lecture

entitled "Managing Early Decisions: Starting Right Helps in Picking Winners" as part of the annual meeting of the Danish National Network for Technology Transfer in Copenhagen.

\* \*

On May 23, **Professor Karl Jorda** participated in a workshop at the Center for IP (CIP) Forum 2007 in Gothenburg, Sweden, where the MIHR/PIPRA *Handbook on Best Practices in Intellectual Property Management in Health and Agricultural Innovation* was presented. He also talked about this chapter in the book, *Trade Secrets and Trade-Secret Licensing*. **Professor Karl Jorda** lectured on "Trade Secrets and the Patent/Trade Secret Interface" at the Continuing Legal Education Institute of the New York County Lawyers' Association (NYCLA) on August 10 in New York City, as an encore to his lecture for the NYCLA on "Trade Secrets and Trade Secret Licensing," "Technology Licensing Dos and Don'ts" and "Ethics in Licensing" last April. On September 18 **Professor Jorda** gave an encore presentation on "Intensive Patent Valuation" at an Intellectual Property Finance and Valuation Seminar of IncreMental Advantage held at the Harmonie Club in New York City.

\* \*

This summer **Professor Susan Richey** was appointed to the position of Associate Dean of Pierce Law. She most recently served as Associate Dean of Graduate Programs. She has been teaching IP courses focusing on trademark, copyright and advertising matters since 1988 at Pierce Law.

\* \*

**Associate Dean Susan Richey** and **Professor Mary Wong** attended the 7th Annual IP Scholars' Conference held at DePaul College of Law in Chicago, IL on August 9-10. **Richey** presented a talk on "Category Theory Applied to Trademark Law: Cognitive Economy as the Paramount Goal in Genericism Cases." **Wong** lectured

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■ **PORTRAIT, from page 1**

property system largely dependent on that of the United Kingdom to an independent system. Wilder joined the University of Malaya law faculty, teaching Torts and IP Law for one year.

After his time in Malaysia, Wilder moved back to the U.S., joining Finnegan Henderson as an associate. After two years of patent prosecution and litigation work, he took a leave of absence to pursue another great international opportunity, senior legal officer in the Industrial Property Division of WIPO. There Wilder participated in discussions for patent harmonization and legislative drafting and training for developing countries.

After two years in Geneva with WIPO, Wilder returned to the U.S. and Finnegan Henderson. His experience with WIPO shifted his interests towards international public law and international economic development, which he combined with his more “traditional” practice of patent prosecution and litigation. After three years at Finnegan Henderson, Wilder was on the move again, when he was asked to join the Office of Legislative and International Affairs at the USPTO. There he represented the U.S. Government in international negotiations on intellectual property issues.

In 1997, Wilder was asked to return to WIPO, where he served in the prestigious position of Director of the Global Intellectual Property Issues Division. There he oversaw various WIPO programs dealing with diverse issues, including biotechnology, genetic resources, public health, traditional knowledge, folklore and human rights. As Director-Advisor of the Office of Legal and Organization Affairs, Mr. Wilder also had responsibility for relations between WIPO and the non-governmental organizations and the private sector.

In 2000, Wilder made the difficult decision of moving back to the U.S. His wife and three children had followed him around the world for his work, and it was time for them all to come home for a while. He moved to Washington, D.C. and joined

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## TRADEMARK VALUATION: PRACTICAL PROBLEMS IN RELATION TO SECURITIZATION

BY MICHAEL FARAH (JD/LLM '09)

IT WAS ONLY TEN YEARS AGO that investment banker David Pullman truly realized the value of IP assets as a source of finance and securitized David Bowie's record labels. This first foundational step generated \$55 million dollars worth of asset backed bonds secured by the future royalties on publishing rights. The phrase “IP Securitization” is a “financing technique whereby a company transfers rights in receivables (e.g., royalties) from IP or to an entity, which in turn issues securities to capital market investors and passes the proceeds back to the owner of the IP. The revenue from receivables pays the investor/bondholder back with an interest rate over a fixed period.” John S. Hillery, Washington CORE, *Securitization of Intellectual Property: Recent Trends from the United States*, <http://www.iip.or.jp/summary/pdf/WCORE2004s.pdf> (March, 2004). Many other “Bowie like” artists have followed the trend and have been able to generate immediate liquidity based on a promise of future revenue. Christopher Kalanje, *WIPO-WASME Special Program on Practical Intellectual Property: Role of IP in Raising Finance, Geneva*, [http://www.wipo.int/edocs/mdocs/sme/en/wipo\\_wasme\\_ipr\\_ge\\_03/wipo\\_wasme\\_ipr\\_ge\\_03\\_17.pdf](http://www.wipo.int/edocs/mdocs/sme/en/wipo_wasme_ipr_ge_03/wipo_wasme_ipr_ge_03_17.pdf) (Oct., 2003). This relatively new and misunderstood business not only covers copyrights, but also trademarks and more recently patents.

Larger companies have been the best and most active at securitizing their assets, while SME's (small and medium enterprise businesses) have yet to jump on this bandwagon because of a false sense of ineptitude. And, while it is obvious that this is a promising new enterprise, investing in intangible assets is still a risky business. Leonard Nakamura, Business Review Q4 2001, *Investing in Intangibles: Is a Trillion Dollars Missing from GDP?*, <http://www.phil.frb.org/files/br/brq401ln.pdf> (2001). Because of the risks involved, the value of an asset's future potential is extremely important in determining the securitization potential and possibility of outside investment. John Rugman & Tony Hadjiloucas, PricewaterhouseCoopers, London, *Valuing IP and Determining the Cost of Capital*, [http://www.buildingipvalue.com/05\\_SF/360\\_363.htm](http://www.buildingipvalue.com/05_SF/360_363.htm) (accessed Oct. 9, 2007).

The normal method for valuing trademarks in the securitization field is to use an “income approach.” One employing this approach must:

1. Determine the regular income stream that can be generated by the property;
2. Make an assumption as to the duration of the income stream;
3. Make an assumption as to the risk associated with the realization of the forecasted income.

The basic equation used to calculate the prospective earnings of the mark is  $V=I/R$ , where  $V$  represents the value of the earnings stream attributable to the property,  $I$  accounts for the income derived from the intellectual property and  $R$  is the capitalization or discount rate that accounts for all the risks associated with achieving the prospective earnings. Gordon V. Smith, *Valuation of Intellectual Property and Intangible Assets*, 169 (3d ed. 2000). The discount rate is by far the most uncertain variable and can result in widely disparate values depending on who is doing the valuation and for what purpose. Many times, the discount rate fails to address the practical issues of what an IP asset is truly worth, or not worth in some cases. To make matters worse, a failure to properly value the asset does not generally harm the company performing the valuation unless they are also acting as a lender. However, it will and often does harm the potential investor, licensee and licensor. Sylvain Roy, *Introduction to IP Valuation: How Much is Your IP Worth?*, [http://ipmall.info/hosted\\_resources/gin/Roy\\_How\\_much\\_is\\_your\\_IP\\_worth.pdf](http://ipmall.info/hosted_resources/gin/Roy_How_much_is_your_IP_worth.pdf), (2004).

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A major difficulty in valuing trademarks and applying the appropriate discount rate concerns the economic life of the mark. The economic life of a trademark is the period during which the use of the asset is profitable. *Smith*, at 283. Because a trademark exists so long as it is used and maintained, it may seem that its economic life is endless. However, there are certain requirements to maintaining the mark. *Id.* at 298.

One requirement is maintaining a certain level of quality control on how a licensee will use the mark. Where there is insufficient

quality control, the penalties are harsh: the license could be deemed “naked,” and the trademark considered abandoned. *Go Medical Industries Pty, Ltd. v. Inmed Corp.*, 300 F.Supp.2d 1297 (N.D.Ga. 2003).

Determining what is the necessary level of quality control can also be expensive because “the degree of quality control exercised by a licensor is a question of fact, which may require a trial rather than be determined on summary judgment.” *Alligator Co. v. Robert Bruce, Inc.*, 176 F.Supp. 377 (D. Pa. 1959). See *R. C. W. Supervisor, Inc. v. Cuban*

*Tobacco Co.*, 220 F.Supp. 453, 138 (S.D.N.Y. 1963) (degree of quality control is a question of fact). While a high burden of proof is required to consider a trademark license “naked,” courts have done just that. In *First National Bank of Omaha v. Auto Teller Systems Service Corp.*, 9 U.S.P.Q. 2d 1749 (TTAB 1988), the TTAB considered a mark invalid where the only quality control requirement was that the licensee would use the mark in connection with goods and services “of the same quality as those on which it was already using the mark.” On the other hand, in *Turner v. H M H Publishing Co.*, 380 F.2d 224 (5th Cir. 1967), the court determined that Hugh Hefner Publishing validly licensed the use of the Playboy mark to various Playboy clubs throughout the nation by establishing standards relating to decor, the quantity and quality of food, beverages and entertainment, and hired and supervised personnel in the licensee’s clubs. J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18:58 (4th ed. 1997).

While the courts require quality control, the actual amount of quality control is unclear. The relevant case law tends to differentiate active and passive quality control. Active control includes frequent inspections performed by agents of the licensor, using standards set by the licensor and imposing penalties for failing to adhere. Passive control depends on the licensee to monitor the quality of how the mark is used. Passive control normally relies on the licensee’s empty guarantees with respect to an undefined standard of quality. While “periodic and thorough inspections by trained personnel” constitute adequate quality control, mere “chance, cursory examinations of licensees’ operations by technically untrained salesmen” would not. *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 369 (2d Cir. 1959) (Lumbard, J., dissenting in part).

A traditional trademark backed securitization takes the form of multiple license agreements for each company that is using the mark. Consider the Guess? Inc. deal which securitized \$75 million dollars through fourteen individual license agreements by

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the international trade group of Powell Goldstein Fraser & Murphy. In 2002, he moved with the international trade group of Powell Goldstein to Sidley Austin. There his practice focused on international trade (including litigation before the World Trade Organization), global health and domestic and international policy work (including in the software sector). He is very proud of the work he has done in global health—particularly as an early key player in building the legal infrastructure for the Medicines for Malaria Venture, the Global Alliance for TB Drug Development and the Bill & Melinda Gates Foundation among others.

Wilder’s focus has recently shifted as he has taken the position of Associate General Counsel for IP Policy for Microsoft—a newly-formed position within the company. He will play a key role for the company within the technology sector during a period of rapid evolution and challenge. He will also continue to be active in the global health arena, including as an expert advisor to the World Health Organization.

Throughout his legal career, Dick Wilder has been keenly aware that IP impacts nations, companies and people alike. His interest in human rights and pro bono services led him to co-found Public Interest Intellectual Advisors, an international non-profit organization that makes intellectual property counsel available for developing countries and public interest

organizations who promote health, agriculture, biodiversity, science, culture, and the environment.

Dick Wilder loves spending time with his wife of 26 years and his three children. He enjoys his friends, great food and wine, music, theater, movies, hiking, and working in his garden. He is a private pilot and recently started skydiving again with his older son. He and his family vacation in Maine every year since graduating from Pierce Law and still love traveling the world.

Intellectual property has been very good to Dick Wilder. His interest in international and foreign work was an early motivator and a constant driving force in his career. His career has brought him and his family around the world and into the middle of some of the more interesting economic, technical, and political developments of the day. As he said, “seek out what really excites you - what you REALLY want to do—and do it.” It may sound cliché, but it has worked out pretty well for Dick Wilder. ■

**Nicholas Sidelnik (JD '08)** received a BS in Aerospace Engineering from MIT.



Upon graduation, he plans to practice IP law in New York, focusing on patent litigation.



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using the SPV (Special Purpose Vehicle) Guess? Royalty Finance LLC. The drawback of such arrangements is that they can take up to nine months to complete and may require complicated corporate structures. Henry Beck, "Recent Securitizations of Licensing Agreements," *Les Nouvelles—Journal of the Licensing Executives Society*, Volume XXXVII No. 3, September 2003, page 151. See also Bonnie McGeer, "Issue Profile: Guess Deal Viewed as a Model for IP Sector," *Asset Securitization Report*, November 17, 2003. These complicated corporate structures within a single company are cause for concern. Certain questions that may go unanswered are: who owns the intellectual property; and who has authority to agree to a security interest?

Another factor affecting ownership concerns potential unrecorded federal transfers of security interests. Section 1060 of the Lanham Act provides that "an assignment shall be void as against any subsequent purchaser for valuable consideration without notice, unless recorded in the patent and trademark office within three months after the date thereof or prior to such subsequent purchase." 15 U.S.C. § 1060 (2006). However, section 1060 only applies to transferees who are potential users of the mark, making it "inapplicable to security interests that might otherwise be artificially conceptualized as assignments." William J. Murphy, *Proposal for a Centralized and Integrated Registry for Security Interests in Intellectual Property*, 41 IDEA 297 (2002). See also *Roman Cleanser v. National Acceptance Co.*, 43 B.R. 940, 945 (Bankr. E.D. Mich. 1984). And even when a transfer or security interest is recorded, the problems of perfection within Article 9 and the required filings of collateral assignments with the PTO still remain. Nixon Peabody: Bankruptcy Law Alert, *Intellectual Property as Collateral: Special Concerns*, Winter 2004. As Thomas Ward, from the University of Maine School of Law points out, "Trademarks are creatures of state law and not severable as a form of personal property." This can create a fuzzy situation as Article 9 is only partially pre-empted by section 1060 of the

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## THE IMPORTANCE OF INNOVATION OUTPUT IN DEVELOPING IP

BY ALEXANDROS DIAMANTIS (JD '09)

COUNTRIES AROUND THE WORLD are becoming increasingly aware of the importance of intellectual property in their international endeavors. Recognition of foreign intellectual property protections is a requirement for membership in international organizations such as the World Trade Organization. IP is a major source of revenue and may well determine the economic future of many nations. Countries like Japan, which lack the natural resources of an agricultural or industrial economy, are increasingly relying on intellectual property for their economic future. Hisamitsu Arai, *Country Focus: IP Revolution—How Japan Formulated a National IP Strategy*, [http://www.wipo.int/wipo\\_magazine/en/2007/03/article\\_0007.html](http://www.wipo.int/wipo_magazine/en/2007/03/article_0007.html) (accessed Oct. 10, 2007). The Chairman of Keizai Doyukai, the Japanese Association of Corporate Executives, said in his 2005 remarks on the state of the economy that new growth must come from innovation. Kakutaro Kitashiro, *The Chairman's Remarks for Fiscal 2005*, <http://www.doyukai.or.jp/en/chairmansmsg/articles/pdf/050517.pdf> (accessed October 10, 2007).

As labor costs continue to rise, countries like the United States, which in the past have consistently depended on industry, have now been forced to turn their attention to IP development. During a speech at the National Press Club in April, 2007, the U.S. Secretary of Commerce, Carlos M. Gutierrez, said the world market has become an innovation-driven economy. *U.S. Commerce Secretary Carlos M. Gutierrez Unveils National Campaign to Inspire Invention in Children*, <http://www1.uspto.gov/go/com/speeches/inspinvtunveils.htm> (accessed Oct. 10, 2007).

But IP is not a tangible resource like oil or mineral ore. It requires more than just prospecting and drilling. To increase intellectual property production, countries must increase their innovation output. Countries such as the U.S., China, Japan, and Chile are attempting to do just that. In April, 2007, the U.S. embarked on a unique approach to solving this problem. The Ad Council, a non-profit organization, which produces public service announcements about the most pressing social issues of the day, teamed up with the United States Patent and Trademark Office (USPTO) and the National Inventors Hall of Fame Foundation (NIHFF) to promote innovation in a new generation of children. *Id.* The campaign, dubbed the "Inspiring Invention Campaign," seeks to make inventing and developing new ideas part of the lives of American Children. *Id.* The campaign targets children ages eight to twelve—called "tweens"—through television, radio, and internet advertising. *Id.* The NIHFF's website, [www.inventnow.org](http://www.inventnow.org), features interactive games where children will be able to "explore their inventive interests in space, sports, design and entertainment." *Id.*

Reactrix System, Inc., the designer of advertising mediums located primarily in malls and theaters (places tweens often socialize) has also donated time on its interactive systems to promote the cause. *Reactrix Partners with the Ad Council*, <http://www.mobiusvc.com/pages.php?pn=overview&sub=inthenews&id=2806&id=2806> (accessed Oct. 10, 2007). A six-foot by eight-foot image is projected onto a flat surface and the image instantly responds to movement and gestures, making it come alive and play like a game. *Id.* The advertisement for the Inspiring Invention Campaign features a ball suspended in space that chemically reacts and "carries the audience through the six areas of discovery highlighted in Inspiring Invention - design, sports, investigation, entertainment, space and environment." *Id.* The advertisements run every twelve minutes and encourage children to pursue invention and innovation in their education and ultimately in their careers. *US Secretary Unveil Campaign*, <http://www1.uspto.gov/go/com/speeches/inspinvtunveils.htm> (accessed Oct. 10, 2007).

The Inspiring Invention Campaign is only one of the USPTO's and NIHFF's initiatives to encourage invention and innovation. Other programs include the National Inventors Hall of Fame's Camp Invention and Club Invention, both of which are supported by the USPTO. *Id.* Camp Invention is a summer camp utilizing hands-on activities, subject immersion,

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and discovery, while Club Invention is an after-school program promoting scientific innovation and inquiry in school children. *Id.* Camp Invention is extremely popular; more than 60,000 students attended during the summer of 2007. *Id.* The NIHFF also sponsors a competition, called “©®EA™,” in which individuals or teams submit their

inventions. *Honor Winners of ©®EA™*, <http://www.uspto.gov/web/offices/com/speeches/06-45.htm> (accessed Oct. 10, 2007). At the elementary and high school levels, a general topic is given in which an invention needs to be made. *Id.* At the collegiate level, submissions of all types are accepted. *College Students Compete for Top Prizes In Collegiate Inventors Competition*,

<http://www.prnewswire.com> (Oct. 12, 2006 article) (accessed July 27, 2007).

The U.S. programs mesh well with the programs suggested by the International Federation of Inventors Association (IFIA). The IFIA encourages that creativity be promoted through discovery rather than through passive absorption. Farag Moussa, *How to Encourage Creativity in Youth*, [http://www.invention-ifa.ch/youth\\_experiencesPoliciesToPromoteCreativeness.htm](http://www.invention-ifa.ch/youth_experiencesPoliciesToPromoteCreativeness.htm) (accessed Oct. 10, 2007). The Ad Council’s advertisements encourage children to discover ways to solve common problems. The NIHFF’s website contains games where children can discover and explore their interests in various subjects. While the NIHFF’s after-school programs focus on discovery and innovation for high school students, the Ad Council’s campaign targets tweens. *Id.*

The U.S. has only recently held invention competitions for tweens as a method of encouraging innovation. Japan has a similar contest, sponsored by the Japan Institute of Invention and Innovation, in which school children may submit a model of an invention either conforming to the year’s specific theme or the child’s own theme. *Id.* If the children are too young to make a model, they may present the drawing on a piece of paper. *Id.* In 1990, Holland launched a competition where children up to the age of thirteen may write about an invention and draw a picture of it. *Id.* One of the successes of the Holland program is that of the 6,000 submissions presented, as many came from girls as from boys and, consequently, the prizes were evenly distributed between both genders. *Id.*

However, lack of private capital and sparse educational funding are factors that are slowing intellectual property production. In order to maintain their status as leaders in technology and innovation, countries such as Japan and China are continually increasing their spending on research and development at rates much higher than the US. See James Reynolds, *China’s drive to Promote Invention*, <http://news.bbc.co.uk/2/hi/asia-pacific/6912056.stm> (accessed Oct. 10, 2007). China has already overtaken Japan in its spending, with increases of

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Lanham Act. If a party qualifies as a purchaser subject to section 1060 of the Lanham Act, “the secured party is unprotected against a prior unrecorded assignment of the mark during the three month grace period in §1060 and any additional office delay.” Thomas M. Ward, *Intellectual Property in Commerce*, 240-42 (6th ed. 2006). This often long delay can halt securitization transactions until all security interests are attached and recorded. Additionally, the secured party must avoid assignments in gross, must police the mark, and avoid assignments of ITU applications for fear of possible mark trafficking and subsequent registration invalidation. Between the delay in the attachment and recording of security interests and the possibility of invalidation for mishandling, the discount rate needs to be properly adjusted to account for these periods of lost income and risks of invalidation. These and other factors need to be considered at the time the valuation is performed, because they threaten the strength of the asset in the marketplace, the level of control given to the creditor, the likelihood of a future attack on a security interest and the overall willingness for investment in the IP asset.

Although it may never be possible to completely eliminate the risks associated with IP securitization, there are some ways to minimize exposure. One method is to securitize IP assets through large private equity funds that will draw more investment because of greater stability and potential for future royalties. Professor Jay Dratler advocates the “seamless web” strategy for integrating assets. This approach calls for supplementary protection across as many forms of IP an organization can exploit.

*Treatise on Intellectual Property Law: Commercial, Creative, and Industrial Property*, Law Journal Press, 1991. However, this is not an approach geared towards protection; it is aimed at attracting investors with the promise of future revenue. It would also allow both large companies and SME’s to generate revenue by joining together attracting big investment based on multiple royalty stream backed securities.

Some companies, like AUS Consultants have created databases, such as RoyaltySource, that may assist in valuing similarly situated IP assets. As for determining what security interests exist in intellectual property, The Federal Intellectual Property Security Act is working towards a solution. Perhaps the most promising solution is the nationally integrated database that will eliminate the confusion between each state’s UCC article 9 filing system and the federal system. Murphy, *supra*. This will eliminate difficulties and create the certainty that investors need. *Id.* The next few years will be extremely important in advancing the shift from a personal and real property system towards a world that increasingly relies on intangible property. Perfecting valuation techniques is only one step toward that goal. ■

**Michael E. Farah (JD 09’)** received a BA from UT Austin in 2004. Upon graduation he plans to return to North Texas and practice with a focus on IP Litigation.





20% a year since 1999, and targets the spending to reach 2.5% of the gross domestic product (GDP) by 2020. *Id.* The U.S. spends only 2.6% of its GDP on research, while Japan, Finland, and Sweden are spending more than 3.1 % of their respective GDPs. John Wolper, *Bush Signs Bill to Boost Scientific Research in the US*, [http://www.efluxmedia.com/news\\_Bush\\_Signs\\_Bill\\_to\\_Boost\\_Scientific\\_Research\\_in\\_the\\_US\\_07624.html](http://www.efluxmedia.com/news_Bush_Signs_Bill_to_Boost_Scientific_Research_in_the_US_07624.html) (accessed Oct. 10, 2007).

While the majority of U.S. funding for research comes from private businesses, the U.S. also remains the only country to utilize mass media to promote innovation in younger generations. *Id.* Currently “one-third of the world’s science and engineering researchers and 40 percent of all research and development” are contained within the borders of the U.S., according to the Council on Competitiveness, and the U.S. would like to keep it that way. *Unveil Campaign*, <http://www1.uspto.gov/go/com/speeches/inspinvtunveils.htm> (accessed Oct. 10, 2007).

But funding isn’t the end all be all for promoting innovation; increasing the population of researchers and promoting scientific knowledge are also necessary to increase the amount of technology that emerges from a country. In that vein, the U.S. is making great strides to increase the retention rate of highly educated scientists. Wolper, *supra*. The recently passed America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science Act (Promote Science Act) seeks to increase scientific research through the injection of \$135 billion in grants and tax incentives. *Id.* The Promote Science Act will increase the number of teachers and students participating in advanced placement and international baccalaureate classes and would, through a program called Math Now, improve instruction in mathematics for students. *Id.* This increase in research and development spending will create more jobs; jobs that will one day be filled by the very students educated by the Math Now and Advanced Placement classes. The campaigns of the Ad Council, USPTO, and NIHFF, combined with this increased

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## OUTSOURCING: ARE PATENT PROSECUTION JOBS NEXT?

BY NICHOLAS SIDELNIK (JD '08)

**T**he globalization of economies has led to a broad shift in the labor market. Relatively cheap overseas labor creates an incentive to outsource labor intensive tasks abroad. A bicycle made in Indiana today might be made in India tomorrow. If you have ever called a service hotline and heard an unfamiliar accent, outsourcing has probably touched your life.

Outsourcing is not limited to manufacturing jobs or call centers; legal jobs are being outsourced as well. According to a report by Cambridge, Massachusetts based Forester Research, 12,000 legal jobs moved offshore in 2004, and Forester predicts 79,000 legal positions will move overseas by 2015. In America, 60,000 engineers graduate a year, about one-tenth the number produced by India and China. John Kerry, John Edwards, *Our Plan for America, Stronger at Home, Respected in the World*, 2004, Perseus Books Group. It is therefore not surprising that a number of patent drafting shops already exist in India. The outsourcing of patent drafting is real. Seattle-based Perkins Coie has already formed a task force to look into offshore outsourcing. Deirdre Gregg, “Law firms mull outsourcing offshore” *Puget Sound Business Journal* (July 2, 2006). Hugh Totten, a partner with Perkins Coie, was quoted as saying: “The legal industry is really one that historically has been reluctant to endorse change, but...my instinct is that this [outsourcing] is going to impact us in the same way that computers impacted lawyer productivity, that it could be that significant.”

When a patent application is outsourced, the task of writing the portion of a patent application describing the invention, known as the specification, is typically given to a foreign technical writer. Occasionally, some claims may be included by the technical writer as well. The draft patent application is then sent to a U.S. patent attorney, who reviews and edits the specification and claims and submits the patent application to the U.S. Patent and Trademark Office (USPTO). The U.S. patent attorney is normally responsible for prosecuting the application in the USPTO until the patent issues.

Some companies, such as General Electric, have already outsourced legal work to India. Some of the most prominent India firms are Evalueserve Inc. and IP Pro Inc., which draft patent applications, and Intellevate LLC, which does prior art searches, illustrations and proofreading. The co-founder of Evalueserve, Alok Aggarwal, has acknowledged that it is often hard to sell foreign legal services, as clients are concerned that the quality of work done overseas is not as high as that done by U.S. firms.

In the highly competitive world of law firms, reducing patent application drafting costs for the client may provide an incentive to outsource. Charles Kulas, who co-founded Carpenter & Kulas, a U.S. patent prosecution firm which has filed more than 100 patent applications that were outsourced to India, says he typically charges \$10,000 to \$12,000 to write a patent application, while the Indian company he works with charges \$6,000. Brenda Sandburg, “India Inked” *The Recorder*, January, 13, 2005. India, a society producing hundreds of thousands of engineers, and with English-speaking lawyers trained in a system based on British common law, certainly looks like a good candidate for patent outsourcing. In addition to cost savings, the 12 hour time difference means U.S. lawyers can request work at the end of the day and have it completed overnight.

However, a number of concerns exist when a decision to outsource a patent application is made. The first obvious concern is maintaining the quality of patents produced. Charles Kulas recalled one assignment in which a patent drafter took the inventor’s comments on his invention and simply pasted them into a template Kulas had provided. The writer then sent the document to Carpenter & Kulas with a \$1,500 bill. Finding the right employees and properly training them is clearly critical for maintaining quality. A few words can be the difference between a meaningful patent and a useless patent.

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# THAILAND BREAKS BLOCKBUSTER DRUG PATENTS, LEGALLY?

BY ANNE ST. MARTIN (JD/LLM '09)

ON NOVEMBER 29, 2006, Thailand issued its government a license to break a patent on Merck's first line ARV Efavirenz. This move was seen by many around the world as an infringement of TRIPS, and Thailand was immediately criticized for not first making attempts to obtain a voluntary license. However, Thailand did not break any international or domestic laws by issuing the "compulsory license," even without conducting prior negotiations. In fact, the Thai Government's right to do so was reinforced by the World Trade Organization (WTO) in 2001 through the adoption of the Doha Declaration on the TRIPS Agreement and Public Health, affirming that "The TRIPS Agreement should be implemented in a manner supportive of WTO's members rights to protect public health and, in particular, to promote access to medicines for all." Doha WTO Ministerial, *Declaration on the TRIPS agreement and public health*, [http://www.wto.org/English/thewto\\_e/minist\\_e/min01\\_e/minddecl\\_trips\\_e.htm](http://www.wto.org/English/thewto_e/minist_e/min01_e/minddecl_trips_e.htm) (accessed Aug. 24, 2007).

Throughout the developing world, Thailand has set an ambitious example of how to achieve universal healthcare and access to essential medicine. Under its National Health Security Act of 2002, every Thai citizen is covered by one of three national public health insurance schemes and is entitled to full access of all medicines on the essential drugs list. Striving to meet this commitment, Thailand has increased its public health budget from four percent of the national budget in the 1980's to over ten percent in 2007. Ministry of Public Health, *Facts and Evidences on the 10 Burning Issues Related to the Government Use Patents on Three Patented Essential Drugs in Thailand*. Thailand, (2007). Furthermore, in October 2003, Thailand became the second country in the world, after Brazil, to make a commitment to universal access to antiretroviral drugs (ARVs). In turn, Thailand's budget for ARV access has increased from \$10 million in 2001 to over \$100 million in 2007. *Id.* However, even with this relatively substantial public health budget, Thailand cannot afford to purchase enough under patent essential medicines to provide universal access to its over 64 million citizens. After years of negotiations with pharmaceutical companies over the price of certain specified drugs, Thailand decided to follow the lead of the Doha Declaration on public health and issue government use compulsory licenses as allowed under Article 31 of the TRIPS agreement. *Id.*

As reinforced by the Doha declaration, WTO member states "have the right to grant compulsory licenses and the freedom to determine the grounds upon which such

licenses are granted." Article 31 of the TRIPS Agreement, titled "Other Use Without the Authorization of the Right Holder," outlines the conditions necessary for the granting of compulsory licenses, including the Article 31(b) obligation of the licensing member to make efforts to "obtain authorization from the right holder on reasonable commercial terms and conditions" for a reasonable period of time before issuing a compulsory license. However, this requirement "may be waived by a Member in the case of a national emergency or other circumstance of extreme urgency or in cases of public non commercial use." According to the Doha Declaration, "every Member has the right to determine what constitutes a national emergency or other circumstances of extreme urgency, it being understood that public health crisis, including those relating to HIV/AIDS, TB, malaria, and other epidemics, can represent a national emergency or other circumstances of extreme urgency."

However, once a declaration is made in the case of public non-commercial use under Article 31(b), the right holder must be promptly informed. Furthermore, regardless of prior negotiation before issuing of the compulsory license, TRIPS Article 31 (h) states that "the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;" however, it does not define "adequate remuneration" or "economic value," and countries are free to make this determination provided they follow a reasonable process. World Trade Organization, *Trade Related Aspects of Intellectual Property Rights*, [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm) (accessed Aug. 24, 2007).

Section 51 of the Thai Patent Act 2522 (as amended by the Thai Patent Act no.2 B.E. 2535 and no.3 B.E. 2542), gives the Thailand Department of Disease Control the right to grant a license for public purchase and use of an under patent drug without prior negotiation with the patent holder, as expressly allowed under TRIPS Article 31. Specifically, Section 51 authorizes the government to exercise any right associated with the patent under Section 36 in order "to relieve a severe shortage of ...drugs or other consumption items," provided they pay a royalty to the patentee or his exclusive licensee under paragraph 2 of Section 48, and notify the patentee in writing without delay in accordance with Section 46 and 47.

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## PIERCE LAW IP BLOGS

<http://blogs.piercelaw.edu/trade-secrets>

### JORDA ON TRADE SECRETS—THE INTERFACE BETWEEN PATENTS AND TRADE SECRETS

Over his career of fifty years in industry and academia Karl Jorda has assembled quite a few credos, insights and truisms about trade secrets, in general, and three salient trade secret issues, in particular, namely: the importance of trade secrets; the complementariness of patents and trade secrets; and the criticality of trade secrets in technology licensing and technology transfer which he will share with you on his blog.

[www.tradesecretsblog.info](http://www.tradesecretsblog.info)

### TRADE SECRETS VAULT

Professor Jon Cavicchi has opened the Vault to the world and shares a wide range of information on trade secrets. The intent of this blog is to raise consciousness as to the range, extent, predominance and role trade secrets play in day to day business and legal environments.

The Vault complements the Pierce blog, *Jorda on Trade Secrets — The Interface Between Patents and Trade Secrets*. ■



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The patent holder maintains the right to appeal the terms of the license and the royalty rate, but the existence of a dispute does not interfere with the Department's right to begin purchase of generic versions of the patented medicines. Sean Flynn, *Thai Law on Government Use Licenses*, [www.wcl.american.edu/pijip/documents/Thailand CLLaw.2.doc](http://www.wcl.american.edu/pijip/documents/Thailand CLLaw.2.doc) (accessed Aug. 24, 2007).

On November 29, 2006, by virtue of Article 51 of the Thai Patent Act, the Thai Government announced a government use compulsory license to both import from India and produce locally Merck's first line ARV Efavirenz (Storcin®), which was being sold in Thailand for \$41/month, and could be imported from India at just over half that price. Although there are several effective ARV's on the Thai market, Efavirenz is the safest ARV available. The license is designed to last until the December 31, 2011 (the patent expires in 2013), for treatment of no more than 200,000 patients per year at a royalty fee of 0.5% of the Government Pharmaceutical Organization's total sale value of the imported or locally produced Efavirenz. *Announcement of the Department of Disease Control, Ministry of public Health, Thailand on the Public Use of Patent for Pharmaceutical Products*. Nov. 29, 2006. <http://www.cptech.org/ip/health/c/thailand/thai-cl-efavirenz.html> (accessed Aug. 24, 2007).

On January 25, 2007, the Thai Government announced the issuance of another compulsory license for Sanofi Aventis's heart disease drug Clopidogrel (Plavix®). Myocardial ischemia and cerebro-vascular complications rank third in Thailand's mortality rate for illness and pose a serious burden on the country, due to this high mortality and disability loss. *Ministry of Public Health Announcement Regarding Exploitation of Patents on Drugs and Medical Supplies for Clopidogrel*, Jan. 29, 2007. [http://www.cptech.org/ip/health/c/thailand/thai-cl-clopidogrel\\_en.pdf](http://www.cptech.org/ip/health/c/thailand/thai-cl-clopidogrel_en.pdf) (accessed Sept 17, 2007). Plavix® works to prevent these illnesses by inhibiting platelet aggregation and is therefore high on Thailand's list of essential medicines. Shortly thereafter, on January 29, 2007, the Thai Government issued a third compulsory license for Abbott Laboratory's second line AIDS combination, Lopinavir + Ritonavir drug (Kaletra®). *Decree of Department of*

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## IS THE GOOD FAITH JUNIOR USER A LEGAL FICTION?

BY LANCE M. CREED (JD '08)

THE GROWTH OF THE INTERNET continues to challenge the ongoing validity of one of the most venerable doctrines in trademark law, the TeaRose-Rectanus doctrine. This doctrine allows, under certain circumstances, multiple uses of the same mark by different entities affixed to similar goods. This doctrine originated in the common law of trademarks and was later codified in the Lanham Act of 1946. 15 U.S.C. §1052(d); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916). The courts, and most recently the Trademark Trial and Appeal Board (TTAB), in dicta of a concurrent registration opinion, may have indicated their view of this doctrine's future. But first it is helpful to analyze the development and current state of the doctrine.

Generally, under the common law, the first to adopt and use a trademark in commerce has superior rights to that mark. Trademark rights under the common law, however, only extend to the area of actual use; thus a court will not find infringement until the senior user intends or actually enters the junior user's market. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 364 (2nd Cir. 1959). This limitation on the territorial rights allows the same mark's placement in commerce in geographically remote areas by multiple users. Thus, if Company A uses a mark in commerce in New York and subsequently Company B uses the same mark in commerce in California, both may retain rights to their marks in their respective markets so long as the subsequent user adopted the mark in good-faith.

Publication in the *Trademark Official Gazette* by the U.S. Patent and Trademark Office (USPTO) prevents subsequent users from adopting the mark within the U.S. Registration provides the mark holder with exclusive nation-wide rights and puts subsequent users on notice of the mark's validity and use. The Lanham Act of 1946, however, does provide for concurrent use registrations for marks in limited scenarios. 15 U.S.C. §1052(d) (2006).

The concurrent use doctrine provides protection for junior users in the event of subsequent federal registration by the senior user. This doctrine, initially conceived in *Hanover Star Milling Co.* and later refined in *United Drug*, protects a contested mark's junior user who adopted the mark in good faith by giving the junior user exclusive rights in their respective market. Thus, if company A uses a mark in New York and subsequently, Company B begins use of the same mark in California before Company A receives federal registration, Company B retains rights to that mark in California while Company A possesses rights to the mark in every other state. The two essential requirements of this doctrine are that the junior user adopted the mark in good faith and that the mark's use remains remote.

The good-faith element of this rule proves difficult to define. The circuits split regarding the good-faith element resulting from the language used in *Hanover Star Milling Co.* In *Hanover Star Milling Co.*, the Supreme Court initially described the good-faith requirement as an "absence of knowledge of the other's adoption of the trademark." 240 U.S. at 410. The majority of the circuits hold this way; that is, if the junior user subjectively knew of the senior user's adoption of the mark, a good-faith adoption defense is defeated. Thus, knowledge destroys a good-faith defense in the majority of jurisdictions. A growing minority of jurisdictions, however, look to the court's language found later in the *Hanover Star Milling Co.* opinion requiring a "design inimical;" the intent to benefit from the reputation or goodwill of the senior user. *Id.* at 415; see also *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990) (holding the ultimate focus is on whether the second user had the intent to benefit from the reputation or goodwill of the first user). Thus, in these jurisdictions, knowledge is simply the first step to showing bad-faith intent in adopting the mark. See generally *El Chico, Inc. v. El Chico Café*, 214 F.2d 721 (5th Cir. 1954) (holding mere knowledge of prior use does not, in itself, constitute bad faith). The "design inimical" view takes the position that bad-faith occurs when the junior user intends or expects that the mark's use

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will create a likelihood of confusion with the senior users mark.

Either view of good-faith intent proves difficult to uphold in the age of the Internet. Recently, Google announced its index had grown to over 24 billion pages and their next goal is to grow the index to 100 billion pages including company websites, telephone directories, product fan and gripe sites, and even the USPTO. These facts make it likely that if a mark is in use, it can be located via a Google search. Additionally, as of August 2006, roughly 207 million of the 299 million people in the U.S. had access to this medium, or roughly 69% of the population. *Internet World Stats, United States of America, Internet Usage and Broadband Usage Report*, <http://www.internetworldstats.com/am/us.htm> (accessed Nov. 8, 2006). If Internet access is nearly ubiquitous and has low search costs, how can a person adopt a mark without at least constructive knowledge of its existence? Furthermore, if parties have constructive knowledge, doesn't that imply that the senior user's reputation has spread into the junior user's area?

The good-faith requirement, however, is only one element in this analysis; a junior user must still satisfy the remoteness requirement of the Tearose-Rectanus doctrine. In fact, previous commentaries argue that the good-faith element is irrelevant so long as the mark's respective uses remain remote. See James M. Treece, *Security for Federally Registered Mark Owners Against Subsequent Users*, 39 Geo. Wash. L. Rev. 1008, 1018 (1971) (arguing a junior user's intent is irrelevant if the marks remain remote and customers remain unconfused by the mark's remote use). This view is logical when viewed in light of trademark law's role as a consumer protection device and the rule that the senior user must, at minimum, intend to enter the junior user's market area before a court will find a likelihood of confusion. *Dawn Donut Co.*, 267 F.2d at 364; see also J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, vol. 1, § 2:1 (4th ed., 2002) (discussing the goals and purposes of trademark law).

The remoteness requirement, however, also becomes difficult to reconcile in the Internet age. In *Hanover Star Milling Co.* the Court left open the possibility of advertisement as a method of extending a trademark's reach into new markets. See 240 U.S. at 403 (holding the trademark's protection extends to markets where its use extends or where

its meaning has become known). Additionally, once a mark appears on the Internet, it is advertised throughout not just the nation, but the globe. Neither the USPTO, TTAB, nor the courts have provided significant guidance regarding the fate of this doctrine in the Internet context. See *Circuit City Stores, Inc. v. Carmax, Inc.*, 165 F.3d 1047, 1057 (6th Cir. 1999) (Jones, J., concurring) (suggesting the courts need to review trademark precedent in the age of the internet).

Finally, in 2005, the TTAB may have finally weighed in on this doctrine's fate. In *Hubcap Heaven, LLC v. Hubcap Heaven, Inc.*, 2005 WL 363418 (TTAB 2005) the applicant sought federal protection for the mark HUBCAP HEAVEN with the exception of four metropolitan areas. Both parties offered similar goods on the internet, through mail-order catalogues and retail stores under the mark HUBCAP HEAVEN. *Id.* The TTAB noted in its analysis that the "juxtaposition...of use of a mark on the Internet, and...the seeking of a geographically restricted registration is troubling." *Id.* Judge Chapman acknowledged the lack of guidance on the issue and stated, at least in terms of concurrent use registrations, that geographically distinct uses appear to be a legal fiction due to the Internet's global reach. *Id.*

In *Hubcap Heaven*, Judge Chapman avoided creating precedent on this issue, but his opinion may have provided useful insight to this doctrine's future. The Tearose-Rectanus doctrine's reasoning might very well be going the way of the "reasonably prudent person" made famous in tort law. Time will tell, but for now it appears the TTAB is moving toward allowing the doctrine's continued use despite its need for an update. ■

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Only patent attorneys and agents registered with the USPTO can file a patent application in the U.S on behalf of an inventor. 37 C.F.R. § 1.56. When an agent or attorney signs the patent application, they are responsible for its legal and factual accuracy. 37 C.F.R. § 10.18(b)(2). However, drafting mistakes do occur, usually because of miscommunication between the drafter and the lawyer or because of unfamiliarity with U.S. patent law. If the patent application does not conform with all patent laws, the consequences could lead to a finding of invalidity of an otherwise valid patent. *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411 (Fed. Cir. 1987).

Outsourcing may create additional costs due to U.S. export regulations. Violating these regulations could invalidate a patent or result in fines or denial of other export licenses. Based on an item's technical characteristics, its destination, and the end use, an export license may be required. Many government agencies have enacted export regulations, such as the Arms Export Control Act for technology with military applications. In determining the necessity of an export license, there is no distinction between the form of an item and the manner in which it is transferred. Whether a prototype is physically sent to a technical writer or the blue prints are sent by email, an export license may be needed. Export regulations are not insurmountable barriers, but care should be taken when considering whether to outsource a particular patent application.

Additional costs may become apparent if an outsourced patent is involved in litigation. For example, attorney client privilege protects legal work from discovery, but if patent drafting is outsourced, it may be easier for the technical writer's non-legal work, and the practitioner's legal work to be discovered. *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800 (Fed. Cir. 2000). Courts might be more willing to allow discovery of information exchanged with non-attorneys overseas. The disclosure of otherwise confidential information to non-attorneys outside the organization could also be used to argue a waiver of attorney-client privilege. Finally, outsourcing may create a paper trail from additional

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long-distance communications. Emails communications, notoriously hard to get rid of, may exist long after they were received, and could eventually be discovered during litigation.

A decision to outsource a patent application may increase litigation costs and cause logistical problems. For example, patent drafters are typically deposed, and if a face-to-face deposition is necessary, any cost savings from outsourcing the patent could be lost on one overseas flight. If the case goes to trial, additional witness may need to be flown to the U.S. Also, identifying who was actually involved in drafting the patent application may be difficult.

Another outsourcing concern is its general unpopularity with the American public. Outsourcing of U.S. jobs has become the subject of heated debates in Congress, and a jury may be more likely to punish a party who has taken part in outsourcing of jobs normally performed in the U.S.

Yet another concern of outsourcing is the security of proprietary information. India has less stringent laws for protecting intellectual property rights than the U.S. and does not have any criminal trade theft laws. Of course the same risks exist in the U.S., but at least there is a well developed body of law to resolve IP theft.

There are many risks associated with outsourcing patent applications, especially if the patent becomes involved in litigation. However, with the right precautions and the right selection of capable technical writers, cost savings with an acceptable level of risk may be possible. For now, when dealing with a crown jewel patent, it's probably best to keep the prosecution work domestic; better off safe than sorry. ■

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Upon graduation, he plans to practice IP law in New York, focusing on patent litigation.



## COUNTERFEITING & PIRACY: GOING BEYOND LEGISLATION

BY KIRSTEN KOEPEL (JD '92 LL.M. '03)

**T**HE COST OF COUNTERFEITING AND PIRACY is estimated to be \$200–\$250 billion a year in the U.S. alone. <http://www.thetruecosts.org/portal/truecosts/getthefacts/default>. One of the loopholes in prosecuting counterfeiters was closed on March 16, 2006 when President George W. Bush signed H. R. 32. Stop Counterfeiting in Manufactured Goods. *The White House, Fact Sheet: President Bush Signs the Stop Counterfeiting in Manufactured Goods Act*, <http://www.whitehouse.gov/news/releases/2006/03/20060316-6.html> (March 16, 2006). HR 32 amends 18 U. S. C § 2320 to include trafficking in counterfeit labels and packaging as well as destruction of counterfeited products and forfeiture of profits and equipment used in counterfeit operations. Historically, the legislative process has been used to pass criminal laws to protect IP from counterfeiting and piracy, such as 17 U.S.C § 506(a)(1)(A) and 18 U.S.C. §2319(b) *Copyright Infringement for Profit* and 17 U.S.C. §1204, *Technology to Circumvent Anti-Piracy Protections Digital Millennium Copyright Act*. However, a November 2004 meeting in Washington, DC of 15 associations and businesses changed that paradigm. That meeting, the brainchild of the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Gillette Corporation, was the start of the Coalition Against Counterfeiting and Piracy (CACP).

The CACP has grown from the 15 original attendees to 103 associations and 513 businesses and law firms. <http://www.thecacp.com> and click on *View the list of CACP members*. The Coalition aims to “fight the growing threat of counterfeiting and piracy to the economy, jobs, and consumer health and safety through a broad-based business coalition.” The mission of the Coalition is to “increase the understanding of the negative impact of counterfeiting and piracy by working with Congress and the administration to drive greater government-wide efforts to address this threat.” <http://www.thecacp.com> and click on *About Us*. Although many businesses or associations will unite to legislatively address a common interest, the CACP established seven goals that would attack the issue of counterfeiting and piracy not only from a legislative aspect but also from a business aspect:

1. Organize a voluntary, business-led effort to Stop Trade in Fakes by identifying and encouraging the adoption of supply chain best practices;
2. Work with all relevant government agencies to ensure greater detection, enforcement, and prosecution of IP crimes;
3. Develop and adopt broad-based legislation that will advance the collective needs of the business community;
4. Encourage and coordinate greater research, data gathering, and communications efforts about the impact of counterfeiting and piracy;
5. Work with the U.S. government to obtain increased international anti-counterfeiting and anti-piracy initiatives;
6. Provide information on state-of-the-art authentication, tracking, and monitoring technologies and their applications to anti-counterfeiting and anti-piracy efforts; and
7. Develop strategies and tactics to deal with the growing threat of trade in counterfeit and pirated goods on the Internet. *Id.*

At the beginning of each year, each of the seven task forces set their respective goals as well as meeting times for the coming year. The CACP holds monthly meetings for all members where the task force leaders provide updates on their progress. The monthly meetings also provide an opportunity for government agencies to speak on their activities to the Coalition members. Past speakers have included the Department of Justice, U.S. Trade Representatives, Customs and Border Protection, Department of Homeland Security, U. S. Patent and Trademark Office, Department of State, and the Department of Commerce.

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The CACP has made great strides toward accomplishing their goals. A supply chain best practices tool kit (currently available in a draft version) has been developed and made available to businesses. Coalition Against Counterfeiting and Piracy, "Secure supply chain best practices tool kit: Protecting businesses, consumers, and brand integrity," available at <http://www.thecacp.com> and click on **View Supply Chain Tool Kit under News Alerts September 28, 2006**. The tool kit was developed as counterfeiting and piracy must be addressed not only by "legal infrastructure to protect trademarks and copyrights effectively and enforce IP laws to deter fraudulent behavior" but also by businesses that "must also do their part to prevent the production and sale of counterfeit products." *Id.* The tool kit provides a collection of best practices for businesses to use as a guide to ensure that their raw materials and parts are authentic and meeting company standards as well as four case studies (additional ones to be added). *Id.*

The Coalitions' work with federal government agencies has been recognized by the Department of Justice. U. S. Department of Justice, *Progress Report of the Department of Justice's Task Force on Intellectual Property*, 24 (June 2006) In the report Justice states "that a successful and comprehensive plan of attack against IP theft requires the formation of partnerships with the victims and potential victims of IP theft" and cites the Coalition as one of their partners. *Id.* at 23.

The passage of H.R. 32 was accomplished with the assistance of Coalition members meeting face-to-face with over 70 Congressional offices and discussing the importance of passage of the legislation. Already, the legislative task force has begun discussing how to improve the states IP legislation by using H.R. 32 as a guide.

Although many IP lawyers throughout the world recognize the importance of protecting IP, the Coalition recognized that research into the cost of counterfeiting and piracy as well as why consumers purchase such goods, would aid in educating businesses, consumers and governmental agencies as well as providing advocacy material for increasing resources, detection and enforcement. In 2005, the Organisation for Economic Co-operation and Development (OECD) sent a survey to Coalition members

"to improve factual understanding and awareness of the effects that infringements of IP rights, as described in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) have on government, business and consumers in member countries and non-member economies." <http://www.oecd.org/sti/counterfeiting>. The Coalition is undertaking its own economic studies because as stated in a recent study on movie piracy there is "noticeably little data that reliably estimates the *total economic impact piracy and counterfeiting have on the U.S. economy*—including the impact on tax revenue, job creation, and economic output." <http://www.ipi.org/ipi/IPIPublications.nsf/PublicationLookupFullText/E274F77ADF58BD08862571F8001BA6BF>. The movie piracy study took "as its starting point a recent comprehensive analysis that found that the major U.S. movie companies lost \$6.1 billion in 2005 to piracy. Using methodology developed and maintained by the U.S. government, this study finds that the movie companies' \$6.1 billion loss translates into total lost output among all industries of \$20.5 billion annually. It also finds that lost earnings for all U.S. workers amounts to \$5.5 billion annually, and 141,030 jobs that would otherwise have been created are lost. In addition, as a result of piracy, governments at the federal, state, and local levels are deprived of \$837 million in tax revenues each year." *Id.* The Coalition has established a website that provides educational resources including costs and the affect of counterfeiting on the US economy. <http://www.thetruecosts.org>.

The authentication/technology task force was established to provide CACP members information on state-of-the-art authentication, tracking and monitoring technologies. One of their successes is the establishment of an international authentication association for "suppliers of authentication technologies, systems and services." <http://www.internationalauthenticationassociation.org>. An aim of the association is to "promote the use of such systems, technologies and products as an integral part of effective strategies to protect products, documents and their users from counterfeiting and fraud." *Id.*

The internet task force was established in August 2006 to address online counterfeiting

and piracy. The task force will be looking at the extent of online counterfeiting, educational material for businesses, resources for consumers, and available technologies. A recent sampling of products sold on eBay demonstrated the availability of counterfeit products: 90% of 300,000 Christian Dior items and 150,000 Louis Vuitton products sold were fakes. [http://www.parade.com/articles/editions/2007/edition\\_01-14-2007/Intelligence\\_Report](http://www.parade.com/articles/editions/2007/edition_01-14-2007/Intelligence_Report). The Coalition's multi-pronged approach of legislation, research and education should go a long way towards reducing counterfeiting and piracy. ■

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scientific instruction will be very useful in maintaining the America's status as a technological world leader. This unique combination of advertising strategies is more effective at promoting intellectual property production than the approach employed by countries who view the problem simply as a lack of funding. The interconnectedness of each program and the fact that they build upon one another will only serve to keep the U.S. innovating well into the future. ■

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*Disease Control, Ministry of Public Health, Regarding Exploitation of Patent on Drugs & medical Supplies by the Government on Combination Drug between Lopinavir & Ritonavir.* Jan. 29, 2007, [http://www.cptech.org/ip/health/c/thailand/thai-cl-kaletra\\_en.pdf](http://www.cptech.org/ip/health/c/thailand/thai-cl-kaletra_en.pdf) (accessed Sept. 16, 2007). Although Thailand has a \$100 million budget for HIV/AIDS treatment, many of the patients have developed resistance to the first line ARVs, including Efavirenz, and require second line treatment. The protease inhibitor combination Kaletra® is a highly effective ARV with relatively no harmful side effects. Both licenses are effective until expiration of the associated patents, and the same 0.5% royalty fee will be paid to the patent holders.

In each case, the Thai Ministry of Public Health immediately notified the patent owner upon issuance of the license, clearly stating that the license will only be used for “non-commercial... public health services,” and the drugs produced will only be distributed to citizens covered by the national health plans. Furthermore, and perhaps more boldly, Thailand emphasized the necessity of the licenses to introduce “market competition by imported or locally produced generics” in order to lower the price of the listed medicines and increase the government’s purchasing power.

Merck, Abbott and Sanofi-Aventis make substantial efforts to offer drugs at reduced prices in developing countries and warn that overriding patents risks undermining incentives for innovation. Amy Kazin, *Thailand Confirms Switch to Generic Medicines*, Financial Times, London (Aug. 31, 2007). Two days after the Efavirenz license was issued, Merck offered to negotiate a voluntary license at reduced rates if Thailand would retract its license. Similarly, in early February, Abbott and Sanofi Aventis were quick to initiate negotiations with Thailand over Kaletra and Plavix. However, no agreements were reached, and on March 13, 2007 Abbott decided to withdraw its pending drug applications from the Thai market. This move will not affect Abbott’s drugs that are already available in Thailand, but essentially means Abbott will not market any new medicines. Furthermore, in late April, 2007, the USTR *Special 301 Report* elevated Thailand to its “Priority Watch List,” noting “in late 2006 and early 2007, there were further indications of a

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## From the Editor

### Book Review

# TRADE SECRET ASSET MANAGEMENT

BY KARL F. JORDA

A GEM OF A BOOK SAW THE LIGHT OF DAY RECENTLY. It is titled *Trade Secret Asset Management—An Executive’s Guide to Information Asset Management, Including Sarbanes-Oxley Accounting Requirements for Trade Secrets*. It was published by Aspatore Books and was authored by R. Mark Halligan and Richard F. Weyand. Mr. Weyand is the President of the Trade Secret Office, which is developing management methods and software for the automated discovery, inventory and valuation of trade secrets. Mr. Halligan, a partner in the Chicago office of Lovells LLP, teaches “Advanced Trade Secret Law” as well as “Trade Secret Litigation” at John Marshall Law School, has a data base of over 700 trade secret decisions and is recognized as the country’s leading expert in trade secret law, the Economic Espionage Act of 1996 (EEA) as well as the application of the Sarbanes-Oxley Act of 2002 to trade secrets.

The book’s small size of 8-1/2 by 5-1/2 inches and only 150 pages of text belies its importance for the management of corporate trade secrets. As the subtitle indicates it is a guide for executives. As such it is refreshingly hands-on and non-legalistic without authorities or citations and without footnotes or endnotes. And it uses plain and straightforward language with an executive summary at the beginning and a summation at the end of each chapter.

After breezing through the basics of trade secret law in Chapter 1 through 4 on what trade secrets are and how they are defended and lost, the authors focus in great detail on the “all-important” security and accounting issues in the remaining chapters, Chapters 5 through 15. These discussions are impactful and trailblazing.

The book then concludes with 92 pages of useful appendices, consisting of

- the Uniform Trade Secrets Act, the Economic Espionage Act, the Computer Fraud and Abuse Act and excerpts from the Sarbanes-Oxley Act;
- four important exemplary trade secret cases, in one of which Judge Posner extols the importance of trade secrets to the economy;
- a checklist of potential trade secrets; and
- samples of a non-disclosure and confidentiality agreement and an employee trade secret exit interview form.

In Chapter 2, which deals with the nature and importance of trade secrets, the authors state that

“the vast bulk of the value of (a corporation’s) intangible assets is comprised of the company’s trade secrets, not of its goodwill, branding, or other intangible assets. Trade secrets are what allowed Goggle to come out of nowhere to dominate the search engine business over competitive search technologies from companies with established goodwill and branding like Yahoo!, AOL, and Microsoft. It is the trade secrets that drove their success, which in turn drove their goodwill and branding, not the other way round.”

In this chapter, they also quote FBI Director, Robert S. Mueller III as claiming in a speech in 2003 that “as much as \$200 billion is annually lost to economic espionage.” What’s more, in Chapter 14 on “Trade Secrets Sarbanes-Oxley,” they relate that the 2004 Annual Report to Congress on Foreign Economic Collection and Industrial Espionage reported that

“individuals from both the private and public sectors of almost 100 foreign countries engaged in efforts to obtain unauthorized access to trade secret assets in the United States in fiscal year 2004. It is currently estimated that trade secret losses exceed \$300 billion per year.”

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The authors then conclude that the “company’s trade secrets are at risk of theft, this risk is large and growing, and most companies are insufficiently aware of or prepared to deal with this risk.” Given the dominance of trade secrets and the prevalence of trade secret theft, it is deplorable that most companies have no trade secret policies in place, when “trade secret protection (should) be front and center of every company’s risk management program.” Hence, their extraordinary emphasis in the six ensuing chapters on security measures, which of course are requisite as a matter of law anyway for safeguarding the trade secret status of all proprietary information and know-how.

Thus, the heart of this trade secret book is the detailed discussion in six chapters of security; namely, security against outsiders, security against insiders, inbound security and establishment and monitoring of a trade secret culture. According to the authors, the importance of security measures to maintain “the company’s trade secret property rights in its information cannot be overemphasized.” Security lapses, that is, failures to take reasonable measures to maintain secrecy, are the most common stumbling blocks in trade secret litigation. Besides, such failures can result in the loss of trade secrets, “even if the actual access to the information was proper and not due to any lapse in security measures.”

In Chapter 6 on security against outsiders, the authors discuss first of all outside access by proper means and warn against:

- careless, inadvertent and unprotected disclosures in trade shows, conference speeches, sales calls, customer visits, employment or media interviews, etc.;
- discussion of proprietary information in public places—“loose lips sink ships”;
- errors in transmission—“Proprietary & Confidential” legends should be prominent; and
- careless disposal of materials containing proprietary information—“waste paper archeology” being a favorite technique for going after trade secrets.

Next, under the heading “Outsider Access by Improper Means,” access by fraud, trespass, theft, hacking and through inducement of breach, are gone over and the suggestions are made to:

- chaperone outsiders by an employee at all times,
- break up sensitive information and store it in different places;

- screen employees carefully when hiring or promoting;
- limiting the use of paper documents and encrypting sensitive files on computers and;
- above all, establish a zero tolerance policy and employ a so-called “red team attack” by “retaining outside competitive intelligence specialists to see if they can penetrate the company’s security systems “by discovering and exploiting the company’s weakest links.”

Chapter 7 then deals with “Security Against Insiders.” The authors note that insider theft is the most common source of information loss, due to high employee turnover. It can be lessened through compartmentalization of information and access controls (need to know) as well as careful management of employee agreements and creation of a trade secret culture. Such precautions cause a major dilemma for a company: it must disclose trade secrets to employees but strict policing can be construed as distrust of employees with undesirable consequences on employee morale and loyalty. Practice tips are also made regarding the entrance and exit interviews and the employment agreement. This agreement should be given to a prospective employee prior to offering a position, the employment agreement should be renewed annually—a completely novel suggestion—and the exit interview should include a trade secret segment, in which a statement is signed by the employee affirming his/her abiding trade secret obligations. Contractors, consultants, suppliers and customers rate similar attention.

And Chapter 8 covers “Inbound Security.” A company can be found vicariously liable for trade secret misappropriation, if for example, a new employee, hired from a competitor, discloses competitor’s trade secrets to the new employer, who uses them without consent. Guarding against importation of trade secrets from others, hence, is also critically important. An “ostrich defense” will not shield a company from liability. Independent development of such trade secrets is then no longer possible.

In Chapter 9, the authors point out that it is “important to proactively monitor the company’s business environment to detect theft of proprietary information so corrective measures can be taken to address the situation before it gets worse.” And the last chapter on “Security,” Chapter 10, contains an exposition on establishing a trade secret

culture as more economical and self-sustaining and reinforcing than “stand alone employee training sessions.” This involves unambiguous top-down and effective bottom-up communications.

The next five chapters deal with “Accounting,” including inventorying, classifying, valuating and reporting trade secrets as well as with the topic of “Sarbanes-Oxley and Trade Secrets” and the need for a trade secret holding company. Because there is less awareness of, and attention to, such accounting issues in corporate trade secret policies and practices, these chapters are even more critical and pivotal. Even though inventorying trade secrets is difficult, because a trade secret portfolio is “amorphous, intangible and inchoate,” it is an indispensable first step to classification, valuation and reporting of trade secrets.

A neat classification, I question the authors’ distinctions between “Confidential,” “Secret,” and “Top Secret” secrets, and their call for a “structured regime of security measures and rules of distribution, disclosure, transportation, and access control and tracking that are tailored to the sensitivity of trade secrets of that classification.” In all the decades I have been professionally interested in trade secret law and practice, I have never heard of such a categorization or hierarchization, except in government circles. On the contrary, I have become convinced that when it comes to trade secrets there are no grades or shades of confidentiality and secrecy. It is an either/or matter for trade secrets, just like with pregnancy, and that industry must give their trade secrets and proprietary data the highest classification in order not to jeopardize their legal status. Besides it would be an impossible administrative burden even for big corporations to periodically upgrade or downgrade trade secrets to “remain appropriate to the sensitivity of the trade secret information” throughout the “life cycle” of a trade secret (“from creation, through development, patent election, application, and potential licensing, to obsolescence”). This is suggested and discussed by the authors in their Chapter 13, titled “Life Cycle Management of Trade Secrets.”

In these chapters on “Accounting” the authors also discuss the importance and difficulty of valuation of trade secret assets. Assetization of trade secrets is a critical

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## ■ BOOK REVIEW, from page 14

step for realizing and reporting the full value of a trade secret inventory. Once assetized, trade secrets can be insured against loss and are available as collateral for loans as well as for sale or license to other companies, with the valuation via the discounted cash flow method giving valuable guidance in setting the royalty rates or sale prices.

As regards "Reporting," the authors suggest that a reporting structure be employed that provides granularity of reporting that will be of value to shareholders and investors without being of value to competitors by reporting them "in large enough aggregate categories and with general enough descriptive labels to obscure the nature of the information."

Chapter 14 on "Sarbanes-Oxley and Trade Secrets" is truly an eye-opening must-read for management. Mark Halligan has lectured and written extensively and convincingly on the Sarbanes-Oxley Act of 2002 (SOX) ("Public Company Accounting Reform and Investor Protection Act of 2002") and its impact on corporate trade secret practice. While SOX does not specifically mention trade secret assets nor for that matter any IP assets nor even intangible property, the requirements of SOX transcend any specific asset class and relate to the financial condition of the corporation as a whole. SOX requires adequate internal financial controls, certification by company executives of the accuracy of financial reports, attestation by the company's auditors and imposition of criminal penalties to knowing or willful certification of untrue financial reports. Since every company has trade secrets and trade secrets are financial assets, providing by definition economic value and competitive advantage, the value of trade secrets must be reported.

In the final chapter, Chapter 15, under the topic of "Accounting," they boldly propose separate trade secret holding companies, structured as subsidiaries and profit centers with resources for the effective management of companies' trade secret portfolios, including the licensing and collateralization and the many requirements of FASB rules and the Sarbanes-Oxley Act.

It is the opinion of the authors that a holding company is even more desirable for trade secret assets, which are less well defined but far more important, than for patents, trademarks and copyrights, for which holding companies have already been used.

But because of the close relationship between trade secrets and patents ("every patent begins life as a trade secret"), such holding companies should manage both patents and trade secrets. But given the pervasive general antipathy toward and neglect of trade secrets, I cannot see corporations rush to establish trade secret holding companies or even IP holding companies for patents and trade secrets, especially since IP holding companies have come under IRS scrutiny.

Finally, as mentioned at the outset, the authors include as a relevant appendix the text of the Computer Fraud and Abuse Act of 1984 (CFAA) and in Chapter 6 (Security Against Outsiders) ever so briefly refer to it by stating this:

"Access to the company's computers by hacking is a criminal violation of the federal Computer Fraud and Abuse Act and often a criminal violation of the federal Economic Espionage Act, and the resulting access to proprietary information is an actionable misappropriation."

However, at the Annual Meeting in October 2007 of the American Intellectual Property Law Association (AIPLA), Mark Halligan elaborated in quite some detail on the relevance of the CFAA. In fact, he presented the CFAA as a potentially very effective new club against trade secret misappropriation involving computers, which nowadays is more likely to be the rule rather the exception. And he did this twice: in a plenary meeting in which he reviewed recent trade secret decisions as well as in a meeting of the AIPLA's Trade Secret Committee, which he chairs.

Indeed, the CFAA appears to be gaining unprecedented cognizance, as corroborated by a Luncheon and CLE Program of the New York Intellectual Property Law Association, held on December 12, 2007 in New York City. The topic fielded expertly by Peter Toren of Kasowitz, Benson, Torres & Friedman, was "Theft of Trade Secrets and the Federal Computer Fraud & Abuse Act." In addition to covering such issues as civil liability, criminal prosecution, examples of offensive computer uses, jurisdictional requirements, damages and remedies, etc., he also discussed the recent *International Airport Centers v. Citrin* decision by Judge Posner, which he called a "leading case."

In this decision Judge Posner ruled that Citrin's putting the deletion program on

his computer constituted a "transmission" of trade secrets and that this transmission destroyed files which Citrin, as a departing employee, had no authorization to delete. Therefore, he was guilty of violating the CFAA. (A more detailed discussion of this decision will be presented in a future blog at <http://blogs.piercelaw.edu/trade-secrets>.)

It is likely that in the future the CFAA will be invoked more often than the EEA. ■

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## ■ THAILAND, from page 13

weakening of respect for patents, as the Thai Government announced decisions to issue compulsory licenses for several patented pharmaceutical products." USTR, *Special 301 Report*, Washington D.C. (2007). However, as outlined above, Thailand actions were in complete accordance with WTO TRIPS regulations. Moreover, although Thailand has received a substantial amount of press over their decision, they are not the first country to utilize the TRIPS "compulsory license" provision under Article 31 to access generic medicines for their citizens. In fact, Malaysia, Mozambique, Zimbabwe, Zambia, Eritrea, and Ghana have been paving the way since September 2004. ■

**Anne St. Martin (JD/LLM '09)** graduated with High Distinction from Worcester Polytechnic Institute with a double major in Chemistry and International Studies. Upon graduation she plans to pursue a career in International IP.





■ **FACULTY, from page 2**

on "When User-Generated Content is 'Transformative': Some Thoughts on Authorship, Fair Use and Derivative Works."

\* \*

**Professor Mary Wong** spoke at the 2007 International Copyright Forum in Beijing, from July 17-19 on the "Protection & Use of Copyright by Copyright Owners in the Networked Era." On August 11-12 Professor **Wong** attended the ABA Annual Meeting in San Francisco, CA as the incoming co-chair of the ABA IP Section 301 International Copyright Subcommittee.

\* \*

**Professor/Trustee Gordon Smith** was recently appointed as a visiting professor at the National University of Singapore Law School (NUS). He will be teaching IP Valuation there in January 2008.

\* \*

**Professor Stephen Black** and **Gordon Smith** taught at the IP Academy in Singapore August 20-23. **Black** lectured on "Taxation and Intellectual Property" and **Smith** taught an Intermediate Training Course on "Valuation of P and Intangible Assets." ■



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