Issues & Answers

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Competing with Yourself

By Ray K. Harris

Today's mobile work force increases the risk for employers that intangible corporate assets can leave with departing employees. Increasingly, there is a risk that these assets can be memorized, printed, or downloaded by departing employees for use in competition with the company that created the assets. Customer requirements, vendor reliability data, pricing and marketing strategies and expansion plans are just a few of the many types of information that may reside in corporate databases or the memories of corporate executives. When a competitor has access to this information the company is in effect competing with itself. Thus, when a competitor hires your company's experienced (former) employees, the potential transfer of this intangible property could have enormous competitive impact.

Information that is not generally known to competitors may be eligible for protection as a trade secret. But a new employer is always entitled to the employee's general training and experience. It is sometimes hard to anticipate, in advance, whether an employee will use permissible general experience or impermissible trade secrets pursuing business for a new employer. In some situations courts have concluded that use of trade secrets would be "inevitable"; however, other courts are reluctant to make this determination because it renders the former employee ineligible for certain jobs for which they are particularly well qualified. Courts that refuse to apply the inevitable disclosure doctrine frequently point out that the issue could have been addressed by contract.

In negotiating the employment agreement with key executives, it is important to consider restrictions that may apply after the term of employment. Arizona permits these restraints (except for employees of radio or television networks or stations) as long as they are "reasonable." These restrictions must be carefully drafted to pass muster under the reasonableness standard. Courts will look at the interest to be protected (usually confidential or proprietary information) and assess whether the duration and geographic scope of the restraint are no greater than necessary to protect that interest.

Two recent Arizona cases illustrate the scrutiny a restrictive covenant will face.

In one case an independent sales agent in Pittsburgh, Pennsylvania, agreed not to compete "in the state of Pennsylvania or any contiguous state" for a period of three years. The agreement authorized the court to reform geographic and time restrictions if they were deemed unreasonable. The employer (an Arizona corporation) brought suit to enforce the restrictive covenant. While a court can delete a "grammatically severable" provision it cannot "add provisions or rewrite them." Therefore, the contract provision authorizing the court to reform the contract terms was unenforceable. The use of broad language has a deterrent effect on employees; therefore, the court will not permit a company to "create ominous covenants, knowing that if the provisions are contested, courts will modify the agreement to make it enforceable."

"By simply authorizing the court to rewrite unreasonable restrictions, an employer may relieve itself of crafting a reasonable restriction with the added benefit that departing employees may adhere to an onerous covenant." *Varsity Gold, Inc. v. Porzio*, 202 Ariz. 355, 45 P.3d 352 (App. 2002). The geographic scope of the restraint was unreasonable when the agent had only worked in Pittsburgh and the company had no sales representatives anywhere else in Pennsylvania.

In a second opinion published at the same time, the Court of Appeals upheld a restriction prohibiting a salesperson from selling beds or mattresses for any business "for which the sale of mattresses accounts for more than 40% of sales revenue for a period of six months … within ten miles of any location where employer conducts business." When the employee left and went to work for a competitor the trial court initially held the covenant was overbroad and unenforceable. The Court of Appeals, however, recognized that an employer has a legitimate interest in securing a "reasonable amount of time to overcome the former employees loss, usually by hiring a replacement and giving that replacement time to establish a working relationship." *Bed Mart, Inc. v. Kelley*, 202 Ariz. 370, 45 P.3d 1219 (App. 2002). The six-month time period was reasonable because its takes approximately six months "to hire and train a new employee to be profitable for the company" and the company revises its merchandise pricing and promotional information approximately every six months. Due to the location of the Bed Mart stores, the ten-mile provision precluded the employee from selling mattresses in the entire Phoenix metropolitan area. However, the employee could sell mattresses at furniture or department stores. He was only prohibited from working at the "5 or 6 super stores that are the direct competitors of Bed Mart and located within 10 miles of a Bed Mart store." Moreover, the employee could have used his sales training to sell other products (including bedding or furniture).

Employers should supplement trade secret protection with carefully drafted contractual provisions. Those provisions must not prevent the employee from earning a future livelihood using generalized skills and experience. For a reasonable period of time, however, the former employee can be prohibited from putting the company in the position of competing with itself. ■

Technology Transfer Tsunami

By Ray K. Harris

For most universities formal technology transfer traces its origins to 1980 federal legislation permitting universities to retain title to inventions developed with a federal grant, contract or cooperative agreement. Prior to 1980, fewer than 25 research institutions applied for roughly 250 patents annually. By 2001, over 200 research institutions applied for over 6,800 patents with 3,721 U.S. patents issued. (Association of University Technology Managers "AUTM" licensing survey FY 2001.)

Some leading universities have established significant patent portfolios. For example:

INSTITUTION	PATENTS ISSUED IN 2002
University of California System	466
MIT	152
Cal Tech	117
Stanford	110
University of Texas System	104
Wisconsin Alumni Research Center	82

As a result, the University of California was 37th in the ranking of companies receiving U.S. patents in 2002 published by *Intellectual Property Today* (July 2003). University of California ranked ahead of such well-known entities as Proctor & Gamble, Honeywell International, TRW, Cisco, Boeing and Raytheon.

The goal of technology transfer, however, is not to build a patent portfolio but to commercialize technology. At least 494 new companies based on academic research were formed in fiscal year 2001. Academic institutions retained an equity interest in 70% of these start-up companies. More importantly, two thirds of the start-ups formed since 1993 are still in operation.

Over 4,000 new licenses and options were executed with almost 23,000 licenses and options active in fiscal year 2001. Virtually half of the licenses and options issued were exclusive and two thirds of the licenses were with newly formed or small companies. Adjusted gross license income from licenses and options totalled over $1 billion.

Since 1983, the Arizona legislature has authorized the Board of Regents to stimulate and encourage the development of new products within Arizona through university research and to operate research parks. The patent policy established by the Board of Regents for the three major Arizona universities (UA, ASU and NAU) permits not merely exclusive licenses but transfer of title to research sponsors to encourage technology transfer to the private sector. The patent policy was amended in 1996 and 1999 to expedite the tech transfer process. By fiscal year 2001, ASU was generating $1.75 million a year in royalties and UA was generating $834,000 a year in royalties. UA filed 62 patent applications, executed 18 licenses or options and formed 3 start-up companies. ASU filed 69 patent applications, executed 11 licenses or options and formed 5 start-up companies. A patent management firm located in Arizona (Research Corporation Technologies) filed 35 patent applications, executed 68 licenses or options and formed 2 start-up companies.

One example of an Arizona technology transfer success story is Ventana Medical Systems in Tucson. Currently, the company does business in 55 countries and has been listed on Nasdaq since 1996. The optics industry in Tucson, supported largely by technology transfer, grew from a $50 million industry to an $800 million industry in 1999. Major perceived impediments to further success in Arizona are the lack of venture capital and the inability of Arizona universities to take equity in start-up companies under Article 9, Section 7 of the Arizona Constitution.

In the absence of private venture capital, the legislature has taken important initiatives to fund technology transfer. In 2000, the legislature authorized the Arizona Board of Regents to administer a technology and research initiative fund. This fund is generated by the 0.6% transaction privilege tax authorized under Proposition 301 in November 2000. These funds have contributed in part to the formation of the Arizona BioDesign Institute relocation of the International Genomics Consortium and Translation Genomics Research Institute (TGen) to Phoenix. In the most recent session the legislature appropriated funds for university research infrastructure facilities to be repaid in part from income derived from technology transfer.

The legislature also put the question of amendment of the

Arizona Constitution on the general election ballot for November 2004 to allow "for ownerships and securities that are obtained in consideration of the license or other disposition of any interest in technology of intellectual property created, acquired or managed by the Arizona Board of Regents and institutions under its jurisdiction." The bill was supported by a variety of business interests, including Boeing, Honeywell, Intel, Motorola and various chambers of commerce, as well as the universities.

The Arizona universities are aggressively pursuing technology transfer. This creates an opportunity for companies of all sizes to commercialize technology generated at Arizona universities. Every company should evaluate opportunities to create and maintain commercial advantages as a result of the research and development underway at Arizona universities. ■

The Madrid Protocol: Protecting Trademarks Around the World Becomes Easier and Less Expensive

By Stephen R. Winkelman

As seen from outer space and cyberspace, the world is a big round blue marble without boundaries. Yet, when viewed from the ground, the world is a checkerboard, filled with many borders and many countries, each one with its own distinct trademark rules and registration requirements.

Starting on November 2, 2003, many of those boundaries and requirements will be significantly reduced. On that date, the United States will officially join the Madrid Protocol and U.S. trademark owners will be allowed to file one trademark application (in English) with one set of fees in a single currency here in the United States and the subsequent trademark registration will cover as many as all 60 Madrid Protocol member countries. The Madrid Protocol is here and it could make protecting your brands much easier and less costly.

History

Since the dawn of time (or perhaps only since the 1600s when Bass Ale adopted its red triangle trademark, which is believed to be the oldest continuously used trademark still around), trademark protection has been handled on a nation-by-nation basis. In each nation, companies have had to jump through many separate hoops to separately protect their trademarks.

One of the first steps taken to try to minimize the number of hoops occurred more than 100 years ago with the adoption of The Madrid Agreement on April 14, 1891. The Madrid Agreement allowed, in restrictive circumstances, member countries to protect their trademarks in other member countries by filing a single international application. The Madrid Agreement had many problems and the United States never agreed to it.

Over a century later, on June 27, 1989, The Madrid Protocol was adopted. It also allowed a single trademark application to be filed for all member countries and greatly improved many of the restrictive features of the original Madrid Agreement. However, throughout the 1990s, the United States refused to join as it argued with the European Union over voting rights. Finally, this dispute was resolved in 2000, and on November 2, 2002, the President signed legislation implementing the Madrid Protocol for the United States. Since that time, the U.S. Patent and Trademark Office has been reviewing and adopting rules for the Madrid Protocol (a process that is still not complete). On August 2, 2003, the United States deposited its "instrument of accession" to the Madrid Protocol bringing the Protocol into effect in this country on November 2, 2003.

Benefits

The Madrid Protocol has many benefits for U.S. trademark owners.

- **A Single Application**. Under the Madrid Protocol, rather than filing separate trademark applications in each Madrid Protocol country, U.S.

trademark owners will now be able to file a single trademark application with the U.S. Trademark and Patent Office (their "home country" application) and then check off which other member countries for which the trademark owner wishes to obtain a registration. A Madrid application can also be based on an already existing U.S. trademark registration.

- **Speed.** Although the trademark office in each country will scrutinize a Madrid Protocol application just as it would handle a national application, the Madrid Protocol will nonetheless speed up the registration process. Many countries can take up to four years to accept or reject a trademark application. The Madrid Protocol process requires that an application be acted upon within 18 months. For all countries that do not object within the 18-month time frame, the trademark owner will be issued a registration valid in each of those countries.

- **Lower Costs.** While each national trademark office may charge a fee for the Madrid Protocol application that is extended to their country, the cost to trademark owners will still be substantially less than filing independent national applications.

- **Equal Rights.** A registration under the Madrid Protocol (referred to as an "international registration") is valid for ten years and a trademark owner's rights under an international registration are identical to the rights that would have been acquired by filing separate national registrations.

- **Conversion to National Registrations Allowed.** Should the home country application be denied, the international registration/application may be converted to a separate individual national application and the original home country filing date (i.e., the priority date) will be retained.

- **Administrative Burden Eased.** Renewal of the registration in all countries as well as procedures, such as corporate name changes and assignments, are centralized and may be done with a single filing and payment of necessary fees.

  In addition, should the trademark owner already have an existing national registration in another country, a Madrid Protocol registration would replace the national registration allowing all the benefits of centralized administration but maintaining the former national rights.

To get a sense of the benefits, it helps to look at a hypothetical example. Let's say the Harlem Globetrotters wanted to register a new trademark in 49 countries. Without the Madrid Protocol, the Harlem Globetrotters would have to prepare and file 49 separate applications, one in each country, pay 49 separate fees, retain 49 separate local counsel, file various documents in each jurisdiction and then docket and monitor each application separately. Under the Madrid Protocol, the Harlem Globetrotters would prepare and file only a single application with the U.S. Patent and Trademark Office, paying only a single fee, using a single law firm, and receiving only one registration. Not only does the Madrid Protocol save substantially on initial up-front costs, but instead of having to manage 49 different trademark applications with varying renewal dates and requirements, the Harlem Globetrotters would need only to manage one single application with one single renewal date.

Still Some Challenges

As great as the benefits are, the Madrid Protocol does not ease every burden:

- **Local Counsel Still Needed.** The Madrid Protocol does not eliminate the need for assistance from counsel in other countries. As national offices around the world review a Madrid Protocol international application, they can require responses to Office Actions or seek additional information. At that time, foreign counsel will likely be necessary. Also searching the availability of a trademark in a country prior to filing an application is still advisable. So, local counsel may be needed for searching.

- **Central Attacks.** Should the home country application be rejected by the U.S. Patent and Trademark Office or should the subsequent registration be cancelled within the first five years, then all of the rights obtained in other countries based on the home country filing are similarly disallowed or cancelled. However, even in this situation, the trademark owner may transform its Madrid Protocol rights into corresponding national rights retaining its Madrid registration priority date, so long as the necessary national fees are paid and the trademark owner acts within the required three-month time frame.

- **Home Country Matters.** To obtain an International Registration under the Madrid Protocol, a trademark owner must be domiciled in, be a

national of, or have a real and effective commercial or industrial establishment in a Madrid Protocol Member country, which will now include the United States. For example, if you are headquartered or domiciled in Mexico or Canada and have no commercial or industrial establishment in the United States, then you cannot take advantage of the Madrid Protocol. Also, International Registrations may only be assigned to a party that itself is qualified to file a Madrid Protocol Application.

- **Many Countries Not Covered.** The Madrid Protocol only applies to 60 of the approximately 200 trademark jurisdictions around the world. As a general rule, the Madrid Protocol tends to cover most European countries, and many Far East and Pacific Rim countries as well as a few countries in Africa and Central Asia. In the Americas, members only include the United States, Cuba, Antigua and Barbuda. The Madrid Protocol will not be helpful for obtaining registrations in Canada, Mexico and most Latin American and South American countries.

- **Final Rules Not Out.** We are still waiting for the U.S. Patent and Trademark Office to issue the final rules implementing the treaty.

Despite these drawbacks, the Madrid Protocol will be a useful tool for U.S. trademark owners, allowing them to reduce costs and ease the burden of administering their worldwide trademark portfolios. ■

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