ARE YOUR INTERNATIONAL IP DISCLOSURES ILLEGAL?

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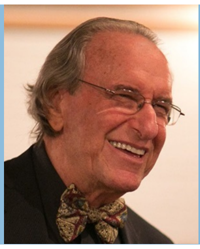

It is not widely appreciated that foreign disclosures of intellectual property rights (IPR) by US individuals, businesses and universities, sometimes aided by attorneys, may in some instances be illegal, and may render the IPR invalid and of no value, at least in the US. I refer here to activities whose cumulative IPR value is approaching a trillion dollars and that involve the sending of technology to foreign nationals. This may occur in any number of seemingly innocent ways.

Businesses and universities routinely invest considerable monies, energy and time in the research and the development of new IPR. This IPR often requires testing, proof of concept, and multinational patent protection. The need for monies for these purposes, coupled with the desire to reduce legal costs, understandably drives many to look abroad for opportunities. Consider the following seemingly ordinary scenarios:

Scenario 1: Company X requires financing to cover testing of and patent protection for its promising new IPR. The market potential is extraordinary. The company is interested in soliciting monies from a wealthy foreign national. Company executives, with the assistance of counsel, prepare an impressive private placement memorandum (PPM) designed to induce interest. The PPM is drafted to include a detailed technical description of the invention underpinning the IPR. The PPM is sent via email to the foreign national with the hope that the results of the investor's due diligence will not discourage investment. The feedback is positive, the investment is made, and US patent counsel (unaware of the PPM) is retained to prepare and file a US patent application based upon the same technical description. A US patent ultimately issues on this application and, with hopes of generating lucrative revenues for the life of the patent, the company embarks on a programme to attract patent licensees willing to pay significant royalties.

Scenario 2: A patent attorney is struggling to meet the demands of an important client. The client insists upon keeping the legal fees associated with patent application preparation and prosecution below an amount currently being charged by competitor patent boutiques. Not wanting to lose this business, the patent attorney agrees to cap his fees and, in order to make what he considers to be reasonable profit on this work, he subcontracts the application preparation to a foreign national associate (India being a common destination). He emails the client's invention disclosure to the associate. Upon receipt of the foreign associate's excellent draft patent application and invoice, the patent attorney files a US patent application incorporating the associate's work product, and bills the client a single amount. The amount billed by him includes the foreign associate's fees, plus a fee for himself. The client and the inventor are not made aware of the existence of the foreign associate or this arrangement.

Severe consequences

In each of these scenarios, the failure to obtain a foreign export licence prior to sending the technology to a foreign national would create severe consequences of the types listed below:

- The unauthorised exportation of what the US Government considers to be sensitive technology is a violation of US groups of export control laws; namely, the International Traffic in Arms Regulations (ITAR) and the Export Administration Regulations (EAR), which provide for severe civil penalties of $1.0 million per violation and criminal penalties of up to 10 and 20 years' imprisonment respectively. Their civil fines per violation can be as high as $500,000 and $250,000 respectively
- Each patent granted in the above scenarios is and will remain invalid in the absence of the grant of a retroactive foreign export licence
- The valuation of a significant portion of the IPR in each of the above scenarios and the projected income to be derived therefrom may be illusory and worthless
- Company X executives involved in the unlawful technology exportation face possible stockholder and/or investor claims
- Representations innocently made in agreements may have been breached.
- Royalty income from IPR licence agreements may be affected
- An attorney's subcontracting to a foreign national without the knowledge of his client, and the manner of billing described, raise possible ethical and malpractice issues under US State laws and the Code of Professional Ethics in many US jurisdictions
- Had a US patent application been filed prior to, rather than after, the technology exportation, and absent a USPTO determination that the technology impacts national security, there would have been no need for a foreign export licence. Alternatively, a pre-filing export licence may have been requested from the USPTO, accompanied by a complete description of the technology. Where an application has been filed abroad through error and without deceptive intent, the USPTO will, on petition, grant a retroactive export licence.

Conclusion

The sending of US IPR to foreign nationals requires caution and attention to US export control laws.

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