JONATHAN (Jon) WOOD

Senior Intellectual Property Counsel, Eastman Chemical Company
Kingsport, Tennessee, USA

A native of Arkansas, Jon Wood earned a B.S. in Chemistry from Harding University in Searcy, Arkansas; an M.S. in Organic Chemistry from the University of Alabama; and a JD from the University of Arkansas. At Eastman Chemical, he is actively involved in all aspects of intellectual property law, including patent preparation, prosecution, opinions, transactions and management. His transactional experience includes drafting and negotiating intellectual property licenses, joint ventures, acquisitions and divestitures, consulting, R&D, marketing, university, government contracts and other intellectual property related agreements. His transactional experience includes domestic as well as international transactions as both a licensee and a licensor. Prior to joining Eastman in 1997, he was in private practice in Salt Lake City, Utah with the firm of Workman, Nydegger which specializes in IP law. Prior to practicing law, he served as an adjunct professor of organic chemistry at Birmingham-Southern College in Birmingham, Alabama.

Jon is licensed to practice law in Arkansas, Utah and Tennessee as well as before the U.S. Patent and Trademark Office. He is active in the Licensing Executives Society, where he has taught licensing, negotiations and ethics for the past 3 years; the Intellectual Property Owners (IPO), where he is the chair of the EU Competition Regulation Committee; and the Tennessee Intellectual Property Law Association, where he serves as a board member. He is a frequent speaker on the topics of patent law, licensing and intellectual property strategy and management. He lives in Kingsport, Tennessee, with his wife, son and two daughters.

Licensing Trade Secrets in China

Jon Wood

Eastman Chemical Company

Senior Counsel

423-229-8862

WHAT IS A TRADE SECRET?

- **Information which:**
  - Is not generally known to others
    - *Doesn't have to be exclusive*
  - Confers an economic or business advantage
  - Is the subject of reasonable efforts to maintain secrecy
    - *Identify and document Trade Secrets*
    - *Notify those having access as to the confidential nature of the information*
    - *Secure procedures for computer and facilities*
    - *CDA's, Employee Agreements and Exit Interviews*
- **Term:** potentially perpetual
- **Examples**: processes, formulas, software, customer lists

WHAT ARE THE RIGHTS?

- Prevent misappropriation (wrongful taking)
- Prevent Unauthorized Use and/or Disclosure
- Reverse engineering permitted unless contractually prohibited
  - Software, genetic materials, catalysts

Laws Governing Trade Secrets In China

- Anti-Unfair Competition Law
  - Articles 10 and 25
- Regulations of the PRC on Technology Import and Export Administration
  - "New Regulations", Effective January 1, 2002
- Both can be found at:
  - http://www.cpahkltd.com/Archives/index.html

Article 10 provides:

An operator may not adopt the following means to infringe on the business secrets of others:

(1) obtaining business secrets from the owners of rights by stealing, promising of gain, resorting to coercion or other illegitimate means;

(2) disclosing, using or allowing others to use business secrets of the owners of rights obtained by the means mentioned in the preceding section;

(3) disclosing, using or allowing others to use business secrets that he has obtained by breaking an engagement or disregarding the requirement of the owners of the rights to preserve the business secrets.

Where a third party obtains, uses or discloses the business secrets of others when it or he has or should have full knowledge of the illegal acts mentioned in the preceding section, it or he shall be deemed to have infringed on the business secrets of others.

Business secrets in this Article refer to technical information and operational information which is not known to the public, which is capable of bringing economic benefits to the owners of the rights, which has practical applicability and which the owners of the rights have taken measures to keep secret.

Article 25 provides:

- Where any party infringes the business secret of another person in contravention of the provisions of Article 10 of this Law, the relevant control and inspection authority shall order it or him to desist from the illegal act and may, according to circumstances, impose on it or him a fine of more than RMB 10,000 yuan (US$1,200) and less than RMB 200,000 yuan (US$25,000).

- It is also possible to bring a suit in the law courts and claim damages.

Regulations on Technology Import and Export Administration

- The Regulations cover:
  - Patent assignment and licensing;
  - Patent application right assignment;
  - Technology know-how assignment and licensing; and
  - Technical service and other means of technology transfer.
- Three Categories of Technology
  - Prohibited, Restricted, Unrestricted

Changes under the New Regulations

- No maximum contract term requirement
  - Old Regulations limited to 10 yrs
- Parties free to determine royalty rate and term of royalty (so long as reasonable)
  - Old- Government may impose lower rate
  - Maximum of 10 yrs
- No time limit on the term of confidentiality
  - Old- Confidentiality not to exceed the term of contract (i.e., 10 yrs)
- Licensor may restrict the use of technology after the expiration of the contract
  - Old- No restriction on use of technology after expiration of contract.

Specific Issues

- Article 24 of the New Regulations:

  "The technology supplying party to a technology import contract shall ensure that he or it is the legitimate owner of the technology supplied or one who has the right to assign or license the technology. . . . Where the receiving party to a technology import contract infringes another person's lawful rights and interests by suing the technology supplied by the supplying party, the supplying party shall bear the liability therefor."

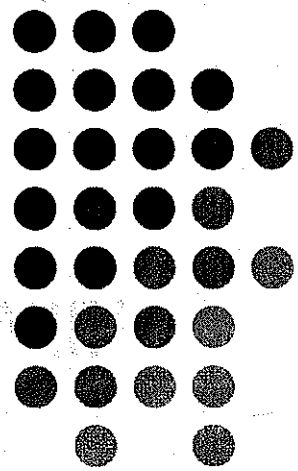
Specific Issues (continued)

- Article 29
  - A technology import contract shall not contain any of the following restrictive clauses:

    (3) restricting the receiving party from improving the technology supplied by the supplying party, or restricting the receiving party from using the improved technology.

Case Study

Practically How Do You Protect Trade Secrets When Licensing In China



Problem: The Risks Are Real

- Opportunity to Lose
- Reputation of who you are dealing with
- Enforcement Difficulty
  - What is Your recourse?
  - Who is your recourse against?
  - Where is your recourse?
  - Difficulty of proving

Strategy for Protecting Trade Secrets

- Due Diligence
- Contract Provisions/Obligations
  - Secrecy, Non-Use
  - Non-Analysis/No Reverse Engineering
  - Non-compete (raw materials, equipment supplier)
  - Audit Provisions (Confidentiality Processes)
  - Engineering Firm, Equipment Supplier
- Remedy:
  - Breach of Contract- Defendant?
  - Revoke License
  - Damages (Assets in US? Liquidated Damages in Escrow)

Patents

- Include patents when ever possible
- Much easier to enforce
- Evidentiary proof
- Importation- 271(g) equivalents

Control and Monitor Technology!

- Controlled Access to Technology
  - Careful delivery of technology
  - Control access to technology
  - Handling of Confidential Information (destroy, non-copying paper)
  - Restricted Access to different steps (Audit)
  - Control- Joint Ventures
  - Notification when employee leaves company

Provide Licensee Incentives…

- Incentives
  - Improvements
  - New Products
  - New Technology
  - New Opportunities (long term relationship)
  - Increasing Capacity

Conclusions

- Risk Associated with Sharing Trade Secrets *(especially outside the country).*
- It can be done
- People/Implementation
- Expensive
- Requires Commitment
- Inevitable Erosion- *amount of erosion will depend on commitment (expense and resources)*

Questions?

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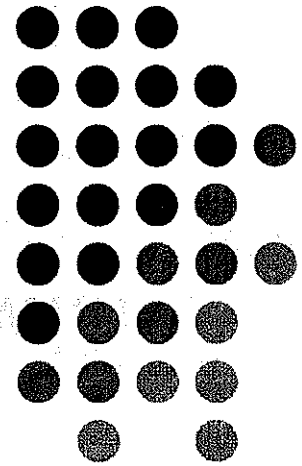

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