

IPLAC

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RESCHEDULED FIELD DAY DATE

SEPTEMBER 23, 2002

See inside for a reservation form for Golf and Dinner, Tennis and Dinner, or Dinner only. If you would like to participate and are not already signed up, please return the reservation form prior to September 23, 2002.

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2002 IPLAC Annual Meeting

Aron Carnahan

The 2002 IPLAC Annual Meeting was hosted by The Palmer House Hilton on May 14, 2002 with the IPLAC banner proudly draped above the head table.

Following the tradition of the last several years, Debbie Wright sang the national anthem.

R. Mark Halligan, the 2001-2002 IPLAC President, chaired the meeting and gave a warm introduction to his successor, Linda A. Kuczma, the 2002-2003 IPLAC President.

There was an excellent turnout. Over 140 IPLAC members and honored guests were in attendance at the Annual Meeting including numerous past IPLAC Presidents and Board Members.

The IPLAC 2002 Inventor of the Year Award was presented to Carolyn R. Doughty for inventing the ubiquitous technology known as Caller ID. In addition, IPLAC Scholarship Awards were presented to three deserving Chicago area high school seniors, Ms.

Victoria Chiou, Ms. Jennifer Platt, and Ms. Michelle Jones.

The following Officers and Board Members were approved by voice vote for 2002-2003:

President-Elect: Robert M. Barrett

Vice President: Mary J. Schnurr

Secretary: William H. Frankel

Treasurer: Debbie K. Wright

Board of Managers:

Stacy P. Chronopoulos

James P. Muraff

Marc V. Richards

Patricia S. Smart

The four outgoing Board members Brian M. Mattson, Thomas J. Schab, Max Shaftal and Heather C.

Steinmeyer were congratulated for their two years of service and provided with the traditional IPLAC paperweight for their service on the Board. Mr. Halligan, as the outgoing President, received the famous IPLAC glass gavel.

President's Farewell

R. Mark Halligan

My term as President of IPLAC has now ended, and I am proud to pass the mantel to Linda Kuczma -- the 118th President of this oldest intellectual property law association in the United States. I look forward to serving in the role as the Immediate Past President, and I have agreed to continue my work on the IPLAC Home Page as Chair of the IPLAC Website Committee.

We made a lot of progress in the last year. I was successful in moving the Annual Judges' Dinner to the last Friday in October in an effort to increase the turnout and received a lot of positive feedback about our new venue at the Fairmont Hotel.

I was very fortunate to retain Michele Bridges as the new IPLAC Database Manager, and Michele has done an

excellent job updating the database and collecting the IPLAC dues. This was a critical task that I faced early in my administration after Joe Krieger became seriously ill.

Updating the IPLAC communications system, database and web page were the highest priorities in my administration, and we made significant strides. I encourage everyone to visit the revamped IPLAC Home Page at www.iplac.org. The website contains a calendar of events (updated regularly), a chat room, e-mail and online membership forms, historical documents (including the bylaws of the association and the list of past presidents from 1885 to the present) and much more.

(Continued on page 4)

THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO

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THE IPLAC NEWSLETTER

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Editor-in-Chief

Steve Szczepanski

The Newsletter Committee

Chair Steve Szczepanski
Vice Chair Tom Fitzsimons
Liaison Thomas J. Schab
Member Janet M. Garetto

Contributions, including letters to the Editor, are solicited. Please write:

Steve Szczepanski
Jenkins & Gilchrist
225 W. Washington, Suite 2600
Chicago, IL 60616-3418
sszczepanski@jenkens.com

2002 IPLAC New Members' Reception

Marc Richards

A delightful lake breeze, sunny cloudless skies and pleasant spring weather accompanied the members of IPLAC, both new and not so new, as they headed to the annual New Members' Reception. This year's reception for new members was held on Thursday evening, April 11, 2002, at the Italian-style restaurant, 312 Chicago, located at Randolph and LaSalle.

It has been several years since the reception was last held in the Loop, and the close proximity to Loop offices apparently helped the attendance exceed expectations. The standing room only reception was held on the mezzanine level of the restaurant overlooking LaSalle Street. The food was delicious. Waiters served hors d'oeuvres ranging from grilled shrimp wrapped in prosciutto to a bruschetta medley. A table overflowing with a gargantuan bread and cheese platter and a tasty risotto dish anchored the room. An open bar served a variety of drinks to keep the atmosphere jovial and the talk endless.

Although labeled "New Members' Reception," the event was open to not just the new, but to all the members of IPLAC gratis. The reception was attended by about 20 new members and about 40 "not-so-new" members. About half of the "not-so-new" members were officers and committee chairpersons who came out to greet the new members and tell them of the fun waiting for them when they sign up for committee involvement. Then IPLAC President, R. Mark Halligan, made a few remarks to welcome everyone and especially the new members there. Mark encouraged all the new members to sign up for committees and pointed out that the New Members' Reception is the only IPLAC event with an open bar. Whether it was the encouraging words or the effect of the free drinks, there was a sudden rush of volunteers signing up for new committees.

The new members in attendance were a mix of law students, young attorneys and a seasoned IP litigator who recently moved to Chicago from Boston. Here is what a few of the new members had to say about the reception:

"I found the IPLAC new member meeting to be a worthwhile event. It allowed me to speak informally with experienced practitioners in the Chicago area, all while enjoying a few free drinks." Justin Lampel, Associate, Patents + TMS, P.C.

"I very much enjoyed the reception. It was nice to meet colleagues with similar interest. I knew no one when I arrived but quickly met people and soon felt welcome." Julius S. Pohlenz, Corporate Attorney, Goss International Corp.

"I did really enjoy the reception. I spoke with quite a few attorneys and talked with them about their jobs, what they did and how they got into their respective fields. I really

appreciated the opportunity to network with other IP attorneys. I also spoke with a few individuals about their memberships in various IPLAC committees. I learned what some of the committees have to offer and whether or not I would like to be a part of them. The atmosphere and food was wonderful. It is definitely a Reception I would attend in the future." Laura Hrubec, Third-year Law Student, DePaul University, College of Law.

We look forward to seeing everyone at the Reception next year. We hope everyone will sign up a friend as a new member and bring the friend along.

Finally, we want to welcome all of the new members and the not-so-new members who have reactivated their lapsed memberships since September 2001 to the present:

Michael J. Abernathy	Michael S. Leonard
Balrina Riku Ahluwalia	Brittany C. MacDonald
Brendan R. Appel	Joseph R. Marcus
William H. Baker	Neal D. Marcus
Carol Lynn Barnes	Eric P. Martin
Debbie L. Berman	Michael B. Martin
Beverly A. Berneman	Rebecca J. Martel
David H. Bluestone	Michelle Martone
Romi N. Bose	Aimee E. McVady
Valerie L. Calloway	Jonathan P. Meyer
Jeffrey H. Canfield	Christopher B. Morris
J. Aron Carnahan	Michael Mrozek
Christopher I. Cedillo	Carol Newman
David Clough	David L. Newman
Robert William Connors	Michael R. Osterhoff
Joseph E. Cwik	Dean D. Paolucci
Mark A. Dalla Valle	Julius S. Pohlenz
Sendil Devadas	Nicholas C. Pruhs
Elizabeth Diaz	Elaine M. Ramesh
Michael A. Dorfman	Joseph P. Reagen
Judie D. Dziezak	Jonathan E. Retsky
Gerry Richard Fischer	Brian C. Rupp
Joseph P. Fox	Indira Saladi
Amy J. Gast	Linda Saltiel
Stephanie Gast	Patricia Kane Schmidt
Michael M. Geoffrey	Mark W. Scott
Raymond W. Green	Catherine Simmons-Gill
David Hall	Andres F. Soruco
William J. Hallihan	Justin Swindells
Jeffery A. Handelman	Teresa D. Tambolas
Ethan F. Hayward	Georgette H. Tarnow
Christopher S. Hermanson	Maurice E. Teixeira
Laura Hrubec	Monica L. Thompson
Julie A. Katz	Rebecca Uryga
Michele S. Katz	Austin Victor
Vladimir Khodosh	Louise T. Walsh
Justin Lampel	William F. Ward III
Grace Law	Wendy J. Weimer
Danielle B. Lemack	

Chicago Area Inventor of the Year

Jack Fassnacht

On May 14, 2002, the IPLAC awarded its Inventor of the Year Award to Carolyn R. Doughty of Wheaton for her earlier invention of Caller ID. She had made the invention in the 1980's while at Bell Laboratories, now Lucent Technologies. Ms. Doughty, who received a patent for this invention, holds B.S. and M.S. degrees in Electrical Engineering from Massachusetts Institute of Technology. Ms. Doughty left Bell Labs to stay home with her child and now does substitute teaching in the Wheaton school district and also does computer work.

The idea for Caller ID occurred after Bell Laboratories developed data linking, which dramatically shortened the wire time required for phone calls and allowed for the phone number to be quickly sent. Caller ID has helped people solve many communications problems including avoiding harassing or annoying phone calls, locating persons, and postponing certain

calls. Ms. Doughty's invention has been recognized as one of the more significant developments in the history of telecommunications.



Linda Kuczma (2002-2003 IPLAC President), Paul R. Kitch, Carolyn R. Doughty, Gregory Doughty, Mark Halligan (2001-2002 IPLAC President) and son Brian Doughty (left to right)

"Herbal Groovies Shrooms"

Marc Cooperman

Ever heard of "Herbal Groovies Shrooms"?

You probably haven't, but eighteen moot court teams from law schools throughout the Midwest were peppered with questions about that trademark in late February 2002. Each year, IPLAC helps sponsor the Midwest Regional Competition of the Saul Lefkowitz Moot Court Competition. This year's Midwest Competition took place at the Daley Center. The Competition, which focuses on problems in trademark and brand name law, is put on annually by the Brand Names Educational Foundation.

Two points make the Competition stand out from others: (1) the organizers consistently come up with clever problems featuring "hot" trademark issues; and (2) the Competition has a following with local Federal and State judges who return year after year to help judge the oral arguments. This year, sixteen sitting judges volunteered their Saturday morning and afternoon to judge and critique the law students.

The team from The John Marshall Law School won the Midwest Competition this year and then went on to win the national competition in Washington D.C., where the team

competed against the winners from the three other regions. In the Midwest, second place went to Washington University in St. Louis, and third place went to the University of Akron.

Attached is a photo of the winning team from the Midwest Competition's awards ceremony.



Pictured from left to right are Marc Cooperman (Chair of the Midwest Regional Competition), Brian McGraw (Team Member), Judge Allen Sharp (Northern District of Indiana), Donald Simon (Team Member), Julie Katz (Vice Chair of the National Competition), and Mark Feldman (Chair of the National Competition)

President's Farewell

Continued from page 2

Recently, the IPLAC Board approved a web-linking policy for IPLAC members which can be obtained online and provide each of you with a link between your firms (or organizations) and IPLAC. See www.iplac.org/Links/.

I want to thank all the Officers and Board Members as well as Committee Chairs and Vice Chairs for their support and contributions, and I look forward to another successful year under Linda Kuczma's reign.

IPLAC Educational Foundation Awards Three Scholarships

Judith Grubner

At the Annual Meeting on May 14, 2002, the IPLAC Educational Foundation awarded three \$3,000 scholarships to deserving Chicago high school seniors. One of those scholarships, to Victoria Chiou of Lane Tech, was sponsored by the generous contribution of Brinks Hofer Gilson & Lione. The Foundation also awarded scholarships to Jennifer Platt of Curie Metro and Michelle Jones of Lane Tech.

Ms. Chiou and Ms. Jones plan to attend the University of Chicago, majoring in biology/chemistry and biology/English, respectively. Ms. Platt plans to attend the University of Illinois Champaign-Urbana, majoring in aerospace engineering. These bright, hard-working and community-minded young people all graduated near the top of their classes and are typical of the students the Foundation is proud to assist with their college educations.

The purpose of the Foundation is to annually fund one or more scholarships to Chicagoland students who plan to pursue an undergraduate degree in science or engineering or plan to attend law school. The first two scholarships were awarded in 1992. Scholarship applications are distributed to high schools in the Chicago area, with the scholarship winners being selected based on academics, test scores, need and character. We hope to encourage talented students to pursue a career in science or intellectual property law. However, the amount of scholarship assistance the Foundation can provide is still meager compared to the cost of today's college education. There are many deserving students we cannot help because we lack the funds. We would like to increase both the amount and the size of the Foundation's awards. This is a heart-warming (and tax deductible) way to have an immediate impact on the lives of young people who may be our future clients or colleagues.

The Foundation is grateful for the many gifts it has received from individual, firm and corporate contributors, as well as the hundreds of IPLAC members who support us through the dues checkoff when renewing their IPLAC memberships. We are proud of our Life Fellows who have made lifetime gifts in excess of \$500 for individuals and \$5,000 for corporations, as well as memorial awards such as the one made by Wallenstein & Wagner. We would like to encourage other firms and corporations to join Roper & Quigg; Bell, Boyd & Lloyd; and Brinks Hofer Gilson & Lione in making sponsored gifts to the Foundation for direct scholarship awards. We have already received such a gift for next year's awards from Roper & Quigg. Please contact Foundation president Judith Grubner at (312) 661-2131 if you wish to discuss making such a gift or have any questions about the Foundation. If you wish to send a donation, please make your check payable to IPLAC Educational Foundation and send it to Foundation treasurer Brent Hawkins at Wallenstein & Wagner, 311 So. Wacker, 53rd Floor, Chicago, IL 60606.



Michelle Jones, Victoria Chiou (Brinks Hofer Gilson Lione recipient), and Jennifer Platt, from left to right.

IPLAC Trade Secrets and Unfair Competition Committee Activities

Steven Feldman

On December 13, 2001, the IPLAC Section on Trade Secrets and Unfair Competition held its 12th Annual Trade Secrets Seminar at The John Marshall Law School. The speakers this year were Brad Lyerla of Wallenstein and Wagner and outgoing IPLAC President, R. Mark Halligan of Welsh & Katz, Ltd.

Brad Lyerla, who was counsel for Redmond in the ground-breaking *Pepsico, Inc. v. Redmond* inevitable disclosure case out of the Seventh Circuit, gave a presentation on the development of the Inevitable Disclosure Doctrine and its applications in the current economic climate. Mark Halligan, a

nationally recognized expert on trade secrets law, spoke on recent developments in trade secrets law. A question and answer session followed. Approximately forty people attended this year's seminar.

The Trade Secrets and Unfair Competition Committee meets periodically to discuss recent developments in trade secrets law and to plan upcoming seminars. Previous seminar speakers have included state and federal judges, experts on competitive business intelligence, federal prosecutors on the Economic Espionage Act, assistant states' attorneys on computer crimes in Illinois, and

several well-known trade secret practitioners from around the country.

The Trade Secrets and Unfair Competition Committee is always looking for new members, with the Committee activities being highly dependent on the number of Committee members and their willingness to participate. One ongoing project is an attempt to develop standard jury instructions for trade secret cases in Illinois. If anyone is interested in assisting with this project or in joining the Committee, please contact Committee Chairman, Steven Feldman ((312) 526-1551; sfeldman@welshkatz.com).

In Memoriam

Joseph Krieger

by R. Mark Halligan

Joseph Krieger was the President of IPLAC from 1994-1995. He never left IPLAC. As the immediate past president, Joe remained active in every aspect of IPLAC, and he voluntarily took on a whole array of responsibilities including management of the IPLAC membership database and the collection of annual dues.

Joe was my mentor in IPLAC, and we worked together on the last update of the IPLAC Pictorial Directory, another herculean task.

Joe Krieger was so organized and so efficient that every President of IPLAC after his presidency came to rely on Joe as a special resource for

IPLAC, and he had a standing invitation to every Board meeting.

Early in my administration as President of IPLAC, I learned that Joe had become ill. Fortunately, I was able to retain Michele Bridges to work with Joe in the orderly transition of the IPLAC membership database and related files. However, right up to his death on March 10, 2002, I continued to communicate with Joe by e-mail about various IPLAC matters.

Joe Krieger loved this Association, and his contributions will continue to be felt for years to come. I miss you Joe.

Howard Clement

by Steve Szczepanski

Howard Clement was a long-time member of IPLAC and served as President in 1978. Howard spent his entire career with the same law firm which became known as "Hume Clement." He joined the firm in 1946; he became a partner in 1952, then a name partner, and served as its president from 1970 to 1981. Howard retired in 1982 and moved to Florida to enjoy golf and tennis. Howard graduated from the University of Illinois School of Engineering in 1938 and enrolled in the University of Illinois law school. He graduated from law school during World War II. Upon graduation, he joined the U.S. Air Force and served as 1st Lieutenant until 1945. For his service, he was awarded the Air Medal.

Howard was always very active in activities outside the practice of law. He was a member of the graduate school faculty at The John Marshall Law School (1955-1960), a member

of the technical advisory board for the U.S. Department of Commerce (1964-65), a member of the President's Commission on the Patent System (1965-67), a member of the Illinois Board of Higher Education (1959-1971), a trustee of the University of Illinois (1959-71) and president of the board of trustees (1962-67) and a member of the board of directors of the University of Illinois Foundation (1975-82). He was also a Fellow of American College of Trial Lawyers Bar Foundation and served on the board of directors (1974-78) and as its president (1975-78).

He is survived by his wife, Carol, and his three children, John, Patricia and Martha.

I will always remember Howard for his guidance and being a true gentleman.

OBITUARIES

David A. Anderson

Dave Anderson died of cancer in Rush-Presbyterian-St. Luke's Medical Center in Chicago on March 4, 2002.

Dave was born in Chicago and raised on the city's North Side. As a boy, his family moved to Northbrook, where he graduated with honors from Glenbrook High School. He later earned a bachelor's degree in chemistry, with honors, from Purdue University and was president of his graduating class.

He went to law school in Washington and graduated with honors from George Washington University Law School. He served as a patent editor of the George Washington Law Review. Upon graduation, he joined the Chicago intellectual property law firm now known as Brinks, Hofer, Gilson & Lione.

Dave became well known as a trial attorney in patent infringement cases. He especially enjoyed the challenge of explaining complex technology to juries. His talents in explaining the law were honed from 1971 to 1986, when he was an adjunct professor of law at DePaul. There, he founded what has become a flourishing program in intellectual property law.

Dave was active in encouraging attorneys to consider alternatives to litigation and was a sought-after speaker in the fields of alternative dispute resolution and patent licensing. In 1997, he led a group of eight Chicago firms to form an organization called the Association of Patent Law Firms. Only law firms can be members, and these firms are required to focus on patent law. He was the founding president of the organization, which now has a national membership.

Dave was an active member of Willow Creek Community Church in South Barrington. He was instrumental in establishing the church's Marketplace Ministry which helps people who want to hold Bible-study and prayer groups in their workplaces. He also helped to establish a cancer-support group at the church.

He is survived by his wife, Deborah, and his three sons, Jordan, Erik and Wes. He is also survived by his mother, Mary; a brother, Douglas; and a sister, Deborah.

Robert F. Kemp

Bob Kemp died from esophageal cancer in March of 2002. He was 42.

He was born in Chicago in 1960 and attended Marist High School. He received his undergraduate degree from Columbia University, where he served as president of his class for his last three years of college.

After spending a year in France on a Rotary Foundation scholarship, he returned to the United States to earn his law degree from the University of California - Berkeley. During his time at Berkeley, Bob was awarded a fellowship by the English-Speaking Union to study in England for one year. Following graduation from law school, he earned additional degrees from Northwestern, The University of Chicago, and The John Marshall Law School.

Along with two colleagues, Bob wrote a book on careers in international law, which was published by the American Society of International Law. He served as a law clerk for the Federal Appellate Court in Chicago. Bob subsequently entered the private practice of law, practicing first with a large patent firm and then a smaller patent firm.

Bob established his own patent law practice in 1994 based in Oak Lawn. Bob served local, national, and international clients in a specialty law practice. In 2000, he received an award for his charitable legal work on behalf of entrepreneurs in the South Suburbs.

Bob also served as an adjunct professor law at The University of Chicago, Northwestern University, and The John Marshall Law School.

He is survived by his wife, Susan, an assistant professor of Indiana University (Northwest Campus); two brothers and a sister, all attorneys; and his mother.

Record-Setting Patent Infringement Damages Award in Japan

by John A. Tessensohn¹

On March 19, 2002, in *Aruze Corp. v. Sammy Corp.*, H-11 (wa) No. 23945 and *Aruze Corp. v. Net Co.*, H-11 (wa) No. 13360 (the *Aruze* decisions), the Tokyo District Court awarded patentee Aruze a record shattering JPY 8.4 billion (approximately U.S.\$63.5 million) patent infringement verdict. Sammy was ordered to pay around JPY 7.4 billion and Net has to pay about JPY 1 billion. In both lawsuits, Aruze had enforced its Japanese Patent No. 1,855,980 relating to a controller system for slot machines. Aruze is a publicly held company listed on the JASDAQ exchange. Defendant Sammy is also a publicly held company whose shares are listed on the Tokyo Stock Exchange.

The annual turnover from pachinko and slot machines in Japan is the highest turnover from any single gaming activity in the world. The value of Japan's leisure market is calculated at over JPY 78.6 trillion (U.S. \$685.0 billion). According to the White Paper on Leisure released by the Institute for Free Time Design, an affiliated body of Japan's Ministry of Economy, Trade, and Industry (METI), the Japanese pachinko market was worth JPY 20.88 trillion (U.S. \$196.98 billion) in 1999. The industry employs a third of a million people, three times more than the steel industry and some 30 million regular pachinko punters are ensuring that they continue to be employed.

In light of the foregoing, the Tokyo District Court's observation in the *Aruze* decisions that "*producers of slot machine-type pachinko machines are fiercely competing against each other*" is not inexplicable in view of the monies involved.

In the *Aruze* decisions, Presiding Judge Mimura of the Tokyo District Court took an expansive interpretation of the legislative provision governing the calculation of damages in patent infringement lawsuits. Using production costs and advertising and promotional expenses as a guide, the Court calculated damages to about 56% of the selling price of the infringed products. The Court essentially reached this amount by multiplying the profit per machine of Plaintiff's products which corresponded to the subject patent right with the actual sales volume of Defendants' products where Sammy was ordered to pay damages on 39,000 infringing units sold and 5,000 infringing units sold by Net. In the *Aruze* decisions, Aruze had originally claimed about JPY 10 billion and JPY 1.8 billion from Sammy and Net respectively for infringements that commenced from March 1998 to the date of filing of the complaints (October 1999 for Sammy and June 1999 for Net).

Aruze already controls about 40% of Japan's pachinko market, and it is expected that these favorable decisions will help enhance its dominant market position by the strategic use of patents.

The *Aruze* decisions are part of the Japanese Court's developing pro-patentee stance adopted against infringers of patent and other intellectual property rights. In fact, this flexibility was already demonstrated in an earlier Tokyo District Court decision *SanSui KK v. Lintec K.K.*, H-11 (wa) No. 23013 dated July 17, 2001, which adopted a flexible interpretation of the term "working capability" in Section 102(1) of Japan's Patent Law to include "potential capabilities" and "the amount of profit per unit quantity" is not to be calculated precisely and is to be calculated approximately. The Court's interpretation took into account the legislative intent of the revision of Section 102(1) which was to expand the protection of patentees' rights.

The previous record in Japan for damage compensation for patent infringement was *SmithKline v. Fujimoto*, H-5 (wa) No. 11876 dated October 12, 1998, where the Tokyo District Court ordered Fujimoto Pharmaceutical Corp. to pay JPY 3 billion (approximately U.S. \$25.6 million) in damages for infringing SmithKline's patent covering its successful anti-ulcer drug Tagamet.

Measures to improve protection of patents has recently emerged as a matter of strategic political and economic importance with the Japanese Prime Minister Junichiro Koizumi setting up a new panel tasked with turning Japan into a patent powerhouse. On March 20, 2002, the first meeting of the Strategy Council on Intellectual Properties was held at the Prime Minister's Official Residence. Koizumi's council is due to draft by year-end an intellectual property strategy containing three-year action programs for the ministries and agencies concerned.

It should be noted that damage awards in Japan are generally lower because there are no punitive or treble damages for willful infringement under Japanese law. Under the Civil Code, the enforceability of a treble damage award made by the California Supreme Court was denied by the Japanese Supreme Court in its decision of July 11, 1997. The Ministry of Justice seems to have acted against many proposals that were instigated by the Japanese Patent Office and the Ministry of International Trade and Industry (MITI). Perhaps, with the

¹ Member, SHUSAKU YAMAMOTO, Osaka, Japan. John has a diverse nine year IP practice counseling US and international clients on global patent and trademark litigation and prosecution, licensing, trade secrets, unfair competition, technology transfer, arbitration and complex IP litigation primarily in high-technology industries like biotechnology, electronics, IT, medical device, healthcare, and life sciences.

The target is to maneuver Japan into a new era of prosperity on the strength of its prodigious pool of patents, intellectual-property rights and other proprietary information that give companies a competitive edge in world markets. Patentees, like Aruze, have already been quietly striving to achieve this with vigorous enforcement of their patents, and it is hoped that many other patentees will find equal success in Japan's

patent litigation environment.

Any questions about this article should e-mailed to John at jtessensohn@shupat.gr.jp. This paper reflects only the present considerations and views of the author & should not be attributed to SHUSAKU YAMAMOTO or to any of its present or future clients.

political clout from the Prime Minister, treble damages for willful patent infringement could be considered as one of the measures to improve Japan's patent system.

From The Website Committee

Vince Gnoffo

Recently, Mark Halligan announced an addition to the IPLAC website -- a list of links to law firm and solo practitioners' websites. In response, both law firms and solo practitioners have begun to submit their applications to have their website links listed. The Website Committee has reviewed the initial submission of applications, and the first links have been added to the IPLAC website. For those interested in listing a firm or individual website link on the IPLAC website, an application form and guidelines for listing a link are enclosed in this newsletter. You may also con-

tact a member of the Website Committee to receive an application form.

Trademark Committees Seminar

Gary H. Saposnik

Continuing in a tradition of presenting seminars on timely topics in trademark law, the U.S and International Trademark Committees presented a seminar on March 26, 2002 entitled "The Search Is On! Trademark Searching In The 21st Century." The seminar covered a wide variety of searching topics with speakers from around the world discussing new developments in trademark searching, Internet searching, international searching from a corporate perspective, international clearance and CTMs, ethical issues in trademark clearance and trademark investigations, and third party acquisitions. The seminar was well attended and very informative. The Trademark

IPLAC 2002 Annual Meeting



“Professional Patent Appraisal”¹

by J. Timothy Cromley, ASA²

Abstract—As businesses are increasingly being built around patents, there is a growing need for business appraisers to know how to value patents and for business executives to know how to distinguish between a comprehensive patent appraisal—and mere calculations. To help satisfy this need, this article addresses topics relevant to a professional patent appraisal. [Note: Sections from the original article entitled *History of Patents, Nature of Patents, Valuation Principles, Traditional Valuation Approaches, Discount Rate, Remaining Useful Life, and Conclusion* are omitted.]

Legal Value-Drivers—Patent law related value-drivers of patents include 1) scope of protection, 2) likelihood of invalidity, 3) likelihood that implementation of the patent may infringe another’s patent, 4) prospective patent infringement damages, 5) legal life, 6) foreign patent protection, and 7) abandonment. Knowledge of patent law value-drivers can be quite useful in valuing a patent. Since an appraiser has to understand a property before valuing it, a patent appraiser should seek information on such topics from appropriate sources. Abandonment can be investigated by contacting the USPTO and asking if maintenance fees are up to date. For most other purposes, a patent law firm involved with the prosecution of the patent may be the best source of information about the patent. If a patent law firm is not available, a qualified patent attorney may be an appropriate source for such information.

A patent’s scope of protection is arguably the most important patent law value-driver. An understanding of a patent’s scope can be derived, in part, by analyzing the surrounding patents and the extent to which the patentee limited the scope of his patent because of arguments made to the USPTO in the process of obtaining the patent.³

A patent’s risk of invalidity is another important patent law-related value-driver as “Situations could well exist . . . that because of certain *prior art* not considered by the Examiner in the course of issuing the patent, validity of the patent is sufficiently in doubt that its value would necessarily be reduced.”⁴

The likelihood that the patent’s implementation may itself be an infringement is another important patent law related value-driver since merely owning a patent is no guarantee that practicing the invention will not infringe someone else’s patent. As such, a patent’s value can be substantially diminished by the *blocking* effect of a prior dominant patent.

Conversely, a patent’s successful enforcement in court can have a significant positive impact on value as its claims have been given an aura of case-tested enforceability.

Royalty & Profit Considerations—Important factors relating to the appraisal of patents by the Income Approach include a royalty rate and/or profit contribution. By profit contribution, we mean the total profit attributable to a patent. By royalty, we mean that portion of a patent’s total profits likely to be exchanged in a licensing transaction. Variations of the Income Approach commonly used to value patents may be broadly classified as royalty-based or profit-contribution methods.⁵ Whether a profit contribution or royalty method is more appropriate depends upon the premise of value—*e.g.*, whether a patent is to be sold separately or used as part of a going concern.

In deriving the potential incremental income or profit contribution associated with a patent, it is often useful to consider the price advantage (or “the price premium”) associated with the sale of the patented product and/or cost savings associated with the patent’s use. Cost-savings investigations seek answers to the question: How much money would a prospective licensor save by using the patented product? Price premium investigations seek answers to the question: If the price on the patented product were raised incrementally, to what extent would the demand for the patented product be impacted? An analysis of alternative technologies can help illuminate the likely cost savings and/or price premium which may result from use of the patented invention.

In forecasting the profit contribution to be derived from a patent, the appraiser should consider, wherever practical, prices and/or costs of prior art options, next-best alternatives, and design-around options relative to those of the patent. As part of this procedure, the patent appraiser may wish to investigate if there are patented alternatives to the patented invention by doing an Internet search of patents cross-referenced by, and cross-referencing, the subject patent at the U.S. PTO’s database. The appraiser should also consider the elasticity of the demand for the patented product and whether the price of the product should be kept low to expand the size of the market.

Where applicable, a reasonable royalty is often determined as a percentage of the total expected incremental income or profit contribution, then translated into a royalty as a

percentage of revenue for ease of enforcement. As part of this process, a royalty of 25% of net profits is often used in license negotiations,⁶ although a range between 33%⁷ and 10%⁸ of profits (or cost savings) is sometimes considered fair.

According to *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 116, 1120, 166 U.S.P.Q. 235, 238 (S.D.N.Y. 1970), there are at least fifteen factors which may be considered by the courts in determining a reasonable royalty. Business appraisers often use the fifteen *Georgia-Pacific* factors as a partial checklist of factors to be considered in estimating a reasonable royalty.⁹ An additional factor impacting a fair royalty rate is its form. For example, something more than just money may be transferred in exchange for patent rights—e.g., where there is a cross-licensing arrangement or an agreement to license back improvements. Other factors impacting royalties include 1) the remaining costs and risks of prototype development and whether the licensee or the licensor is to bear them, and 2) whether the licensee or the licensor is likely to benefit or be burdened by related patent litigation (see Legal Value-Drivers section).

To check the reasonableness of a royalty, patent appraisers sometimes consider industry surveys of royalty rates.¹⁰ In the automotive industry, for instance, royalty rates can be lower than 1% of sales; in the pharmaceutical industry, royalty rates can be 20% of sales or more.

Projection of Sales—A projection of annual sales is an important component of the Income Approach, particularly in the valuation of patents. Business appraisers typically project annual sales based on the industry outlook and on a company's historical operating statements.¹¹ However, an appraisal of a patent that is new and untested has to consider the outlook for a product that is not only without any track record, but also (perhaps) in a non-existing industry. As a result, appraisals of patents often require significant additional investigative work to compensate for a limited industrial record. The sales outlook for a prospective product incorporating a patented invention can be investigated in view of the patent's scope of protection by analogy to established products, by a comprehensive market share analysis, by interviews or surveys of prospective users, and/or by reliance on the market research of others.

Selection of a Multidisciplinary Valuation Team—In view of the nature and complexity of the patent appraisal process, both business appraisers and patent attorneys can be particularly helpful in developing accurate patent appraisals and credible patent valuation reports. Business appraisers are often proficient at developing business valuation models and writing appraisal reports while patent attorneys are generally adept at imparting insight into patent law-related value-drivers (see Legal Value-Drivers section). A patent attorney who

has technical familiarity with a subject patent's field of art—e.g., the patent attorney responsible for securing the patent—can be a particularly useful member of a patent appraisal team. The same is true for a business appraiser. Prior to assembling a patent appraisal team, it is often useful to check the credentials of proposed appraisal team members. Today, this can often be done conveniently on the Internet—e.g., the ASA lists accredited senior appraisers in business valuations at www.appraisers.org and the USPTO lists registered patent attorneys at www.uspto.gov.

Endnotes

¹ This article is based on an article entitled "Professional Patent Appraisal."

² Tim Cromley (Email: tim_cromley@bankone.com, Telephone: (312) 336-2875) is a registered U.S. Patent Attorney and a manager in the Valuation Advisory Services group of Bank One in Chicago. He is Section Head for Business Valuations in the Chicago Chapter of American Society of Appraisers and past chair of the Legal Education Committee of IPLAC. Mr. Cromley has a JD (1990) from the John Marshall Law School, an MBA (1980) from the University of Chicago, and an MS (1974) from the University of Illinois at Urbana. His undergraduate degree was with very high honors. He received a national award for his MS thesis on environmental chemistry. His MBA included a concentration in accounting. His JD included numerous business-related courses, including several in the field of intellectual property law; securities law; corporations; bankruptcy and corporate taxation.

³ Petry, Marvin, 6.18, *Valuation of Technological Intellectual Properties, Taxation of Intellectual Property*, Matthew Bender & Co., Inc., pp. 6-131, March 1998.

⁴ *Ibid.*

⁵ Desmond, Glenn M., and Kelley, Richard E., *Business Valuation Handbook*, Valuation Press, Marina del Rey, California, 1980, p. 196.

⁶ *W.L. Gore and Assoc. v. Int'l Medical Prosthetics*, 16 U.S.P.Q.2d 1257.

⁷ Razgaitis, Richard, *Early-Stage Technologies, Valuation and Pricing*, John Wiley & Sons, Inc., New York, 1999, p. 102.

⁸ Razgaitis, Richard, *AUTM Manual*, Part VII, Chapter 4, p. 34.

⁹ Cromley, J. Timothy, *Patent Infringement Damages and Business Valuations*, *Business Valuation Review*, American Society of Appraisers, September 1994, p. 120.

¹⁰ Degnan, Stephen A., and Horton, Corwin, *A Survey of Licensed Royalties, les Nouvelles—Journal of the Licensing Executives Society*, Cleveland, Ohio, Vol. XXXII No. 2, June 1997, pp. 91-96.

¹¹ IRS, *Revenue Ruling 59-60*, dd 4.01(b) and 4.02(d).

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P.O. BOX 472
CHICAGO, ILLINOIS 60690

