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The IP Practitioner's 'Cheat Sheet' to the FCPA and Travel Act: Introducing the IP FCPA Decision Tree



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Hitting 'Refresh' on FCPA and Travel Act Fundamentals.

Few topics create as many headaches in the world's boardrooms and among IP counsel as the Foreign Corrupt Practices Act (FCPA) and its emerging "private bribery" twin, the U.S. Travel Act.

Despite its 1970s Watergate-era origins, enforcement of the FCPA continues at a relentlessly steady record-high pace, with its recent five-year run bagging close to \$4 billion in penalties against corporations, and its new British cousin—the U.K. Bribery Act—leaping into the fray. And the U.S. government has left no room for doubt that it will continue to feverishly pursue ramped-up FCPA enforcement.

It is a business reality that many of today's companies are valued largely on the basis of their intellectual property,¹ transforming intellectual property protection

¹ More than 70 percent of their market capitalization, according to most sources.

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into an increasingly central business interest. And with so many U.S. and U.S.-based companies "going global," IP is routinely, and simultaneously, owned and litigated in multiple jurisdictions.

IP is, therefore, far from immune from the significant foreign civil and criminal risk posed by ramped-up U.S. Department of Justice and Securities and Exchange Commission enforcement of the FCPA and the Travel Act. The tactics used to register, challenge or enforce those IP rights in foreign jurisdictions must, therefore, be carefully viewed through the FCPA and Travel Act lens.

On Nov. 8, Assistant Attorney General Lanny Breuer addressed the 26th National Conference on the FCPA. Breuer first noted that 2011—like 2010—witnessed boundary-pushing FCPA enforcement actions, with more FCPA trials than in any prior year and the longest prison sentence (15 years) ever imposed under the FCPA.

As Breuer pointed out, 2011—though not as historic as 2010—was another exceptional year for the FCPA enforcers. Indeed, in just a few short years, the FCPA has developed from a once-obscure, largely unenforced criminal statute into the hottest legal issue facing the global business community. And this transformation was anything but accidental.

On Nov. 17, 2009, Breuer recapped the government's 2009 FCPA enforcement efforts, noting, "One can say without exaggeration that this past year was probably the most dynamic single year in the more than thirty years since the FCPA was enacted."

Offering his follow-on FCPA retrospective, Breuer during a Nov. 16, 2010, speech described a prosecutorial sea change: "We are in a new era of FCPA enforcement." And the 2010 enforcement statistics certainly

bore him out, underscoring that the FCPA without doubt ranked as one of the government's top enforcement priorities.

Earlier this year, Breuer confirmed the government's intention to continue the accelerated FCPA enforcement efforts:

[I]n the Criminal Division, we have dramatically increased our enforcement of the Foreign Corrupt Practices Act in recent years. That statute, which was once seen as slumbering, is now very much alive and well. . . . We recently promoted a new head of the Section's FCPA Unit and two assistant chiefs, and we have also increased the number of line prosecutors in the Unit, attracting high caliber attorneys with extensive experience—including Assistant U.S. Attorneys with significant trial and prosecutorial experience and attorneys from private practice with defense-side knowledge and experience. These changes have significantly increased our FCPA enforcement capabilities.

SEC Director of Enforcement Robert Khuzami reinforced Breuer's comments: "Word is getting out that bribery is bad business, and we will continue to work closely with the business community and our colleagues in law enforcement in the fight against global corruption."

Historical context undoubtedly gives the recent enforcement statistics some added punch. First, individual prosecutions under the FCPA have dramatically increased in recent years.

In 2004 and 2005, the DOJ charged seven individuals under the FCPA, collecting criminal fines of roughly \$27.5 million. In 2010, by contrast, the government resolved more than 20 FCPA enforcement actions, with some additional 29 defendants awaiting trial.

Specific IP 'Red Flags.'

The FCPA's twin enforcers, namely, the DOJ and SEC, interpret a principal's "knowledge" constructively to include circumstances where the company fails to exercise due diligence by, for example, following up on "red flags." Red flags in the IP context can be things as simple as:

- a patent being allowed unusually quickly;
- an opposition to a trademark being granted before the entire process has been completed; and
- a foreign customs official robustly enforcing company A's anti-counterfeiting agenda, while ignoring company B's agenda.

FCPA Pitfalls in the IP Context.

Companies must exercise caution so as not to give inappropriate "things of value" (gifts, cash, unreasonably high commissions, etc.), directly or through transaction partners, to foreign officials in order to ensure IP registration, or to oppose registration or enforcement of other companies' IP.

U.S. companies' IP investments abroad are starting to generally be equal to or greater than their domestic IP investments. Clouding this picture, IP investment dollars spent abroad frequently go through foreign transaction partners who "know the local system."

"Hot" IP economies such as China, Brazil, India, and Russia, almost always require the retention of one or

more foreign associates, facilitators, and intermediaries to effectively register and enforce a robust IP program. And these countries also happen to be viewed as "suspect" countries by U.S. law enforcement due to their high levels of public corruption.

IP owners and their agents must be ever vigilant when hiring third parties or local counsel to help to register, or oppose the registration of, their IP. Likewise, IP owners should be equally aware that any government official or third party facilitator performing anti-counterfeiting operations, or "motivating" police and prosecutors, must do so in a manner that does not violate the FCPA or local laws.

Even accommodating seemingly simple requests from a customs official to pay for costs, such as transportation required in sending officers on an anti-counterfeiting operation, requires a determination of whether the payment is a legal "facilitating payment" under the FCPA.

Some Examples.

- In 2008, AGA Medical Corp. of Minneapolis paid a \$2 million fine, and had to take other remedial measures, for bribes by its Chinese distributor that included payments to Chinese patent office employees to expedite issuance of its Chinese patents. These payments were made with the knowledge of U.S. executives at the company. They were called "sponsorships" or given other more discrete titles than bribes.

- Recently, there have been several references in the media to wide-spread corruption in the patent offices of several developing jurisdiction such as India, Brazil, China, and Vietnam. The allegations range from Indian firms hiring patent examiners to work part-time for their private firm in conjunction with their government jobs (not otherwise permitted).

- There are reports that corruption is also a problem in the patent offices of Brazil, Vietnam, and other emerging nations: Political scientists may even tell you that bribery is an embedded, accepted, and even required way of doing business in some countries.

- In October 2006, the DOJ issued an Opinion Release in response to a request from an unnamed Swiss-based corporation declining to take enforcement action if the corporation proceeded with a proposed contribution to the government of an unspecified African country. The company proposed to contribute \$25,000 to the African country's regional customs department and/or ministry of finance as part of a pilot project to improve local enforcement of anti-counterfeiting laws. The company represented that it would execute a formal memorandum of understanding with the country, and would establish several procedural safeguards to ensure that the funds would be used as intended. The Opinion Release, which is the first since 2004, reflects how multinational companies operating in developing nations are addressing FCPA compliance issues related to support provided to host governments.

While you may find FCPA fatigue in corporate boardrooms and among the employee ranks, the FCPA's twin enforcers are reloading their arsenals for another year and leave unwary corporations—and individuals—to proceed at their own peril.

An Ounce of Prevention Cures a Pound of (FCPA/Travel Act) Risk

Today's onslaught of FCPA training modules, law review articles, blog posts, and conference panels can quickly overwhelm and distract regular practitioners from a clear grasp of the precise operation of the FCPA fundamentals—as well as its interaction with the increasingly invoked anti-bribery provisions of the U.S. Travel Act.

As FCPA commentators have widely noted, the DOJ has demonstrated an increasing willingness to tack on

Travel Act violations with FCPA charges when unable to clearly establish that the underlying conduct involved a “foreign official.” Defendants have not been able to successfully thwart these prosecutorial efforts—even when challenged in court—as seen this year in *United States v. Carson*, No. 09-CR-0077-JVS (C.D. Cal. 2011).

In terms of going back to basics, the following decision tree uniquely traces out the key questions to be answered in any potential corruption case, and sets forth the flow, form, and logic of the FCPA and the Travel Act:



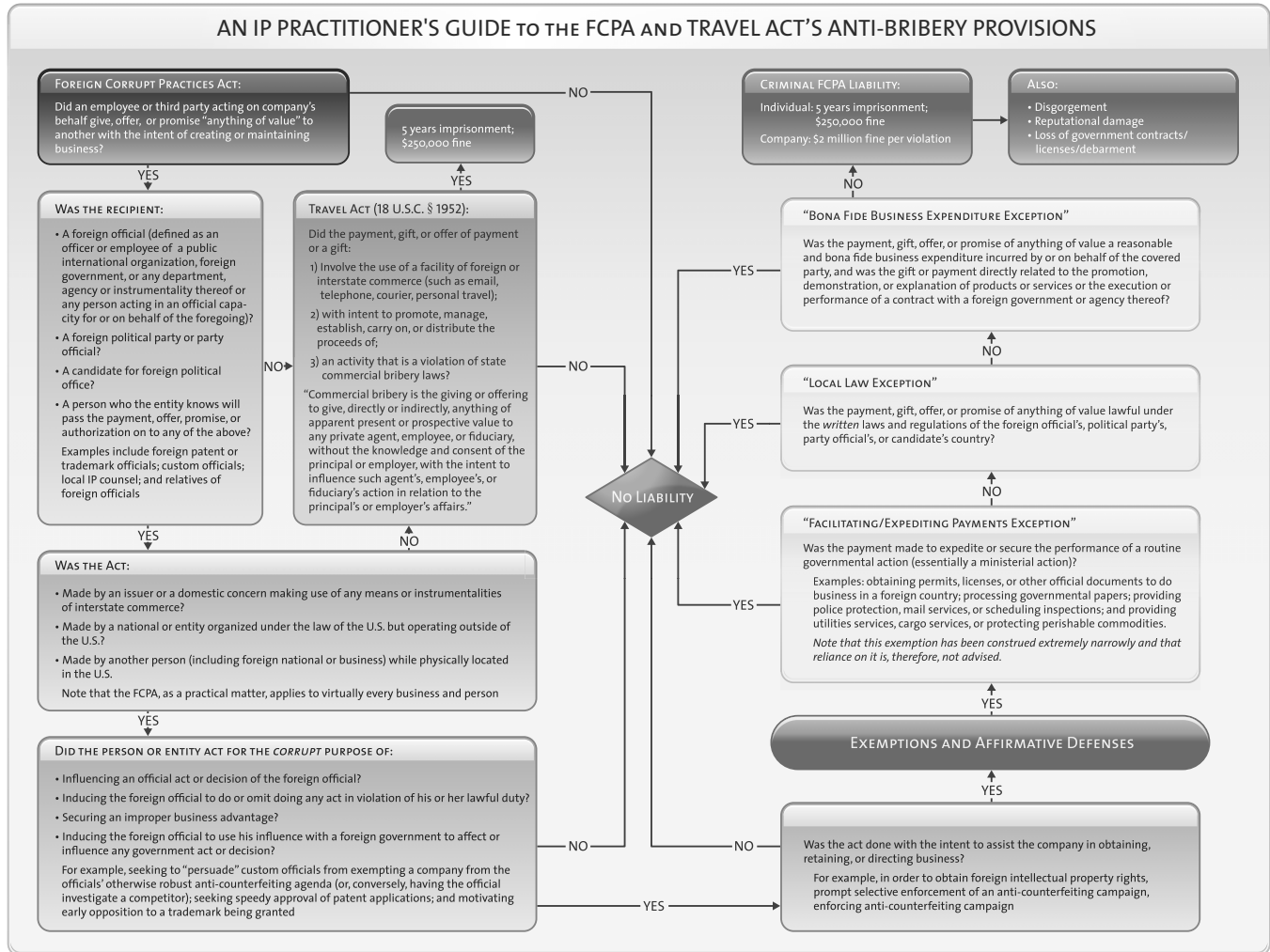
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The information contained herein is not, and should not be relied upon as, legal advice, and is not a substitute for qualified legal counsel.

The decision tree was conceived in an effort to help pierce through the dense cacophony of compliance policies and hypotheticals, and in order to focus in on the foundational elements of U.S. anti-bribery laws.

This first-of-its-kind chart graphically illustrates each analytical step at issue, explains how the Travel Act's

prohibition on “private” bribery fits into the overall anti-bribery puzzle, and seeks to provide a bird's eye view of this often confusing legal framework.