

IP PANORAMA™

The most advanced e-learning content on Intellectual Property
for your business developed by WIPO, KIPO and KIPA






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Preface

This book is intended to complement  **EIPANORAMA™**, an advanced multimedia tool on Intellectual Property for business. It was jointly developed by the World Intellectual Property Organization (WIPO), the Korean Intellectual Property Office (KIPO) and the Korea Invention Promotion Association (KIPA) during a four year period from 2005 to 2008 under a project entitled, 'the Joint Development of E-learning Contents'.

 **EIPANORAMA™** would be very useful to the enterprises sector, to university students and to other interested parties for their understanding in the role of intellectual property for business success. It deals with IP issues from a business perspective, focuses in particular on Small and Medium sized Enterprises (SMEs). The topics covered in the 12 modules include the importance of IP for SMEs, trademarks and industrial designs, inventions and patents, trade secrets, copyright and related rights, patent information, technology licensing, IP in the digital economy, IP and international trade, IP audit, IP Valuation, and Trademark licensing. Each module is structured around a real life business situation, as  **EIPANORAMA™** relies on a 'storytelling' methodology along with educational technology.

You can access  **EIPANORAMA™** at IPAcademy (www.ipacademy.net/ipEng) operated by KIPO and KIPA and the SME website of WIPO (www.wipo.int/sme). Once the study of  **EIPANORAMA™** has been completed, whether through the website or CD, an opportunity is provided to take an official on-line examination followed by an official course completion certificate under the name of WIPO, KIPO and KIPA.

*Wishing you an enjoyable learning experience with  **EIPANORAMA™** !!*

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MODULE

01

Importance of IP for SMEs

MODULE 01. Importance of IP for SMEs

OUTLINE

LEARNING POINT 1: IP is all around us

LEARNING POINT 2: Why is IP relevant to your SME?

LEARNING POINT 3: IP as a business asset

LEARNING POINT 4: The value of IP assets

LEARNING POINT 5: Auditing your IP

LEARNING OBJECTIVES

2. You understand how IP relates to business.
3. You use IP effectively as a business asset.
4. You understand the importance of IP audit

LEARNING POINT 1: IP is all around us

IP is all around us. Every product or service that we use in our daily lives is the result of a long chain of big or small innovation, such as new designs, or improvements that make a product look or function better. We can easily find IP in almost every product like a ballpoint pen or a MP3 player.

1. BALLPOINT PEN

Ladislao Biro's famous patent on ballpoint pens was in many ways a breakthrough. But, like him, many others have improved the product and its designs and legally protected their improvements through the acquisition of IP rights.

The trademark on your pen is also intellectual property, and it helps the producer to market the product and develop a loyal clientele. And this would be the case with almost any product or service in the marketplace.

2. MP3 PLAYER

Patent protection is likely to have been obtained for various technical parts of a MP3 player. Its design may be protected by industrial design rights. The brand name is most probably protected by a trademark. And the music played in the MP3 player is (or has been) protected by copyright.

LEARNING POINT 2: Why is IP relevant to your SME?

Along with human creativity and inventiveness, intellectual property is all around us. Every product or service that we use in our daily lives is the result of a long chain of big or small innovations, such as changes in designs, or improvements that make a product look or function the way it does today. Take a simple product. For example, a pen. Ladislao Biro's famous patent on ballpoint pens was in many ways a breakthrough. But, like him, many others have improved the product and its

designs and legally protected their improvements through the acquisition of IP rights. The trademark on your pen is also intellectual property, and it helps the producer to market the product and develop a loyal clientele.

And this would be the case with almost any product or service in the marketplace. Take a CD player. Patent protection is likely to have been obtained for various technical parts of a CD player. Its design may be protected by industrial design rights. The brand name is most probably protected by a trademark and the music played in the CD player is (or has been) protected by copyright.

So, How Does this Affect Your Business?

Regardless of what product your enterprise makes or what service it provides, it is likely that it is regularly using and creating a great deal of intellectual property. This being the case, you should systematically consider the steps required for protecting, managing and enforcing it, so as to get the best possible commercial results from its ownership. If you are using intellectual property that belongs to others, then you should consider buying it or acquiring the rights to use it by taking a license in order to avoid a dispute and consequent expensive litigation.

Almost every SME has a trade name or one or more trademarks and should consider protecting them. Most SMEs will have valuable confidential business information, from customers' lists to sales tactics that they may wish to protect. A large number would have developed creative original designs. Many would have produced, or assisted in the publication, dissemination or retailing of a copyrighted work. Some may have invented or improved a product or service.

In all such cases, your SME should consider how best to use the IP system to its own benefit. Remember that IP may assist your SME in almost every aspect of your business development and competitive strategy: from product development to product design, from service delivery to marketing, and from raising financial resources to exporting or expanding your business abroad through licensing or franchising.

To find out how all this and many other things may happen, follow through the pages of this web site and discover the world of intellectual property and the opportunities it offers to your SME.

LEARNING POINT 3: IP as a business asset

An enterprise's assets may be broadly divided into two categories: physical assets - including buildings, machinery, financial assets and infrastructure - and intangible assets - ranging from human capital and know-how to ideas, brands, designs and other intangible fruits of a company's creative and innovative capacity. Traditionally, physical assets have been responsible for the bulk of the value of a company, and were considered to be largely responsible for determining the competitiveness of an enterprise in the market place. In recent years, the situation has changed significantly. Increasingly, and largely as a result of the information technologies revolution and the growth of the service economy, companies are realizing that intangible assets are often becoming more valuable than their physical assets.

In short, large warehouses and factories are increasingly being replaced by powerful software and innovative ideas as the main source of income for a large and growing proportion of enterprises worldwide. And even in sectors where traditional production techniques remain dominant, continuous innovation and endless creativity are becoming the keys to greater competitiveness in fiercely competitive markets, be it domestic or international. Intangible assets are therefore taking center stage and SMEs should seek how to make best use of their intangible assets.

One crucial way of doing so is by legally protecting intangible assets and, where they meet the criteria for intellectual property protection, acquiring and maintaining IP rights. IP rights may be acquired in particular for the following categories of intangible assets:

- (1) Innovative products and processes (through patents and utility models);
Patent and Utility model
- (2) Cultural, artistic and literary works including, in most countries, also for computer software and compilation of data (through copyright and related rights protection); Trademark, Collective mark, Certification mark, in some cases, Geographical indications
- (3) Creative designs, including textile designs (through industrial design rights);
Industrial design
- (4) Distinctive signs (mostly through protection of trademarks including collective and certification marks, but in some cases through geographical indications);
Trade secrets
- (5) Microchips (through protection of layout-designs or topographies of integrated circuits); Copyright and Related rights
- (6) Denominations for goods of a given quality or reputation attributable to the geographical origin (through protection of geographical indication);
Geographical indication
- (7) Trade secrets (through protection of undisclosed information of commercial value); Protection of layout-designs or topographies of integrated circuits.

Learn more: IP Protection as an investment

Making the right investments is crucial for enhancing the market value of your SME. Investing in equipment, property, product development, marketing and research can strongly enhance your company's financial situation by expanding its asset base and increasing future productivity. Acquiring intellectual property may have a similar effect. Markets will value your company on the basis of its assets, its current business operations and expectations of future profits. Expectations for future profit may be considerably affected by the acquisition of key patents.

There are numerous examples of SMEs that have seen their market value increase overnight as a result of their acquisition of important patents in key technologies. Similarly, a good trademark with a good reputation among consumers may also enhance your company's current value and may decisively contribute to making your company's products and services more attractive to consumers.

Investment in developing a good IP portfolio is, therefore, much more than a defensive act against potential competitors. It is a way of increasing your company's market value and improving future profitability.

LEARNING POINT 4: The value of IP assets

A crucial point about legal protection of intellectual property is that it turns intangible assets into exclusive property rights, albeit for a limited period of time. It enables your SME to claim ownership over its intangible assets and exploit them to their maximum potential. In short, IP protection makes intangible assets “a bit more tangible” by turning them into valuable exclusive assets that can often be traded in the market place.

If the innovative ideas, creative designs and powerful brands of your SME are not legally protected by IP rights, then these may be freely and legally used by any other enterprise without limitation. However, when they are protected by IP rights, they acquire concrete value for your enterprise as they become property rights which cannot be commercialized or used without your authorization.

Increasingly, investors, stock market brokers and financial advisors are becoming aware of this reality and have begun to value IP assets highly. Enterprises worldwide are also more and more acknowledging the value of their IP assets, and, on occasions, have included them in their balance sheets. Many enterprises, including SMEs, have begun to undertake regular technology and IP audits. In a number of

cases, enterprises have realized that their IP assets are in fact worth more than their physical assets. This is often the case for companies operating in knowledge-intensive and highly innovative sectors, or companies with a well-known brand name.

(1) Strong market position and competitive advantage

IP gives enterprises the exclusive right to prevent others from commercially using a product or service, thereby reducing competition for their innovative product and enabling the enterprise to establish its position in the market as a pre-eminent player.

(2) Higher profit or returns on investment

If your enterprise has invested a significant amount of money and time in R&D, using the tools of the IP system is important to recover your R&D investments and obtain higher returns on your investments.

(3) Additional income from licensing or selling (assigning) IP

IP owner may choose to license or sell the rights to other enterprises in exchange for lump sum payments or royalties, in order to generate additional income for the enterprise.

(4) Creating bargaining power

Owning IP assets that are of interest to others may be useful when you are seeking authorization to use the IP assets of others. In such cases, enterprises often negotiate cross-licensing agreements, which are agreements by which each side authorizes the other enterprise to use its IP assets in the manner specified in the licensing contract.

(5) Enhanced ability to acquire finance at reasonable rates of interest

In some circumstances, enterprises seeking to commercialize a new technology may be able to more easily raise capital, based on their IP assets, for example, by including information about their IP assets in their

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business plans while approaching investors, financial institutions, government agencies, etc.

(6) Credibly threaten or take action against imitators and free-riders

To effectively carve out the exclusivity provided by an IP asset, it may occasionally be necessary to litigate, or at least to threaten to litigate with enterprises that are infringing on your rights. Owning IP assets will improve your enterprise's ability to take successful legal action against imitators and free-riders.

(7) Positive image for your enterprise

Business partners, investors and shareholders may perceive IP portfolios as a demonstration of the high level of expertise, specialization and technological capacity within your enterprise. This may prove useful for raising funds, finding business partners and raising your enterprise's profile and market value.

LEARNING POINT 5: Auditing your IP

One way your SME may acquire a better position to capitalize on the potential benefits of its IP assets and extract their full value is by conducting an IP audit. Ideally, this should be done by professional IP auditors, but often a preliminary IP audit may be done within your company. This entails identifying, monitoring, valuing your SME's IP assets so as to make sure that you are making the most out of them. By doing so, your SME would be able to make informed decisions when it comes to:

(1) Acquiring IP assets

Knowledge of your enterprise's intellectual property and of its value will assist you in deciding which type of IP rights to acquire and maintain, and how

best to manage the IP assets of your SME.

The value of your enterprise maybe considerably be affected by the acquisition of key IP rights.

(2) Mergers and acquisitions

An IP audit can identify all the company's IP portfolio and help to find strengths and weaknesses of IP assets. That allows the company to obtain potential area and targets to acquire specific technology.

Once toe potential targets are identified, the company can narrow down the choices and decide which one of the companies is the best acquisition target in order to strengthen its competitiveness and keep competitors out of market. The successful M&A can lead to a significant increase in the value of your SME.

(3) Licensing

SME can increase its cash flow (revenue) and marketing power by licensing out its IP rights to a third party.

An IP audit will assist your SME in determining the value of your own IP in order to obtain maximum benefit from license agreements. The revenue resulting from there has the potential of increasing the market value of your SME.

(4) Collateral

A well-structured IP portfolio can also be used as collateral. In such cases lenders will use your IP assets to determine the credit worthiness of your SME.

(5) Enforcement

Knowing the value of your IP assets will assist your SME in taking decisions on whether it is worth while taking action against infringement and in what way this may be done.

(6) Cost reduction

A well managed IP register would help you identify obsolete IP assets (thus enabling you to cut-down IP assets' maintenance costs), avoid infringing other people's IP rights, etc. This would undoubtedly lead to a reduction in costs.

Summery

IP is part of every aspect of life in an increasingly knowledge-driven society. It means that IP assets have become the most powerful tool that your enterprise can use in order to survive and grow in today's highly competitive business environment.

More and more enterprises are beginning to realize that intangible assets are becoming more and more valuable while tangible assets are becoming less and less valuable for the competitiveness of a business. Therefore, an enterprise should legally protect intangible assets by acquiring and maintaining IP rights.

IP assets enable your enterprise to achieve the following goals: strong market position and competitive advantage, higher profit or returns on investment, additional income from licensing, creative bargaining power in business deals and positive image of your enterprise.

As a powerful business tool, an IP strategy should be established systematically to identify, protect, evaluate, monitor and exploit your IP assets to ensure that you are reaping maximum benefit out of them.

MODULE

02

Trademarks and Industrial Designs

MODULE 02. Trademarks and Industrial Designs

OUTLINE

LEARNING POINT 1: Trademarks and Industrial Designs for increasing the power of marketing

1. The value of a brand
2. Creating brands through trademark
3. Strengthening brands through industrial design

LEARNING POINT 2: Building the Brands

1. Basic rules for selecting a mark
2. Branding strategies
3. Product extension and branding

LEARNING POINT 3: How to protect trademark and industrial design

1. The value of registration
2. Basic steps for registration
3. Multi-protection

LEARNING POINT 4: Trademark management

1. How to use trademark
2. Trademark audit

INTRODUCTION

New goods are appearing on the market daily. What do you pay attention to when you're going to buy an article? What is it that makes you buy it? Good overall impression, a good brand, attractive design. No one can deny that those are key points that affect customers.

For a corporate marketing strategy, the brand and design should be developed to attract customer's attention and should be legally protected. It is extremely important. Many products that are not attractive to consumer can be seen in the shops. In this module, we're going to look at the importance of trademarks and designs and how to use them in your marketing strategy.

LEARNING OBJECTIVES

1. You understand the basics of trademarks and industrial designs and their impact on business.
2. You know how to create a trademark and how to use and manage it within your business.
3. You know the role played by designs in reinforcing brand power and you know how to apply it to your business.
4. You know the importance of legally protecting your trademarks and designs and the steps to be taken in case your trademark or design is infringed.

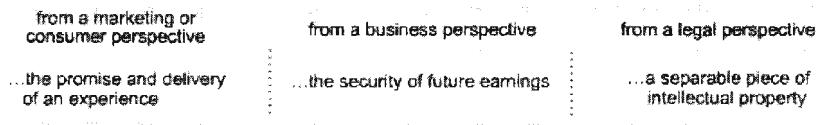
LEARNING POINT 1: Trademarks and Industrial Designs for increasing the power of marketing

1. The value of a brand

All of us are exposed to hundreds of trademarks everyday. These are seen on most products, on accompanying product literature, and on product packaging. As consumers, we take many decisions, sometimes consciously but mostly without even realizing it, based on the goodwill and reputation of trademarks.

The "value" of a brand has different interpretations:

The value of a brand is...



Let's see how your business may do so and benefit from brand proposition to develop a strategy to develop brand preference, brand loyalty, and brand equity.

(1) Recognition and Brand Loyalty

Over time, a consistent good experience with a product translates into brand preference. This helps to keep alive a business's image in the mind of its consumers. If consumers are happy with its products, they will develop trust in its brand and may become, over time, loyal consumers for all its products.

(2) Image of Quality

b. Many consumers buy a brand and not the product to which it relates.

c. When a consumer comes across two otherwise identical products in the market, his choice will invariably move to the branded product of a business that promises a higher quality.

d. This would keep or further enhance the brand's leading position in the relevant markets.

(3) Image of Size

a. A strong brand may project the image of a large and established business to its consumers.

b. So, when a business succeeds in creating a positive brand image and brand preference among consumers, the business appears to be much bigger than it really is.

(4) Image of Experience and Reliability

When experience with a brand indicates that the business owning it has, over time, consciously used its resources to implement a coherent business strategy, it reassures the consumers that such a business is, and more likely to remain, a more reliable and trustworthy business than others.

Learn more: Interbrand 100 Top Global Brands Survey (2006)		
Rank	Brand (Country of origin / Sector)	2006 Brand Value (\$ millions)
1	COCA – COLA (US / Beverages)	67.000
2	MICROSOFT (US / Computer Software)	56.926
3	IBM (US / Computer Services)	56.201
4	GE (US / Diversified)	48.907
5	INTEL (US / Computer Hardware)	32.319
6	NOKIA (Finland / Telecom Equipment)	30.131
7	TOYOTA (Japan / Automotive)	27.941
8	DISNEY (US / Media, Entertainment)	27.848
9	MCDONALD'S (US / Restaurants)	27.501
10	MERCEDES (Germany / Automotive)	21.795

2. Creating Brands through Trademarks

In common usage, a 'trademark' is often referred to as a 'brand.'

By enabling companies to differentiate themselves and their products from those of their competitors, 'trademarks', or simply 'marks', play a pivotal role in the marketing strategies of companies, contributing to the definition of the image and reputation of a business and its products in the eyes of consumers.



- (1) A positive image or reputation of a business creates a relationship of trust. The trust so developed provides the basis for developing a loyal clientele and enhancing a business's goodwill in the long term.
- (2) Often satisfied consumers develop an emotional attachment to a mark. They perceive products/businesses bearing the mark as sharing a brand identity or image, which reflects a set of desired attributes, benefits or values.
- (3) The brand may also define the cultural image, personality and type of consumers linked to the product sold under that mark or brand.

More Reference 1-1: Basics of trademarks

1. Definition

A 'trademark', or simply a 'mark', is a sign capable of distinguishing the goods or services produced or provided by one enterprise from those of other enterprises.

2. Character

- (1) Generally, a mark is a visible distinctive word, letter, numeral, drawing, picture, shape, color, logotype, label or a combination of one or more of these. The design of a logo may be an abstract design, stylization or simple reproduction of everyday objects or images. It is possible to get trademark rights over common words or phrases under certain circumstances.
- (2) An increasing number of countries consider a single color, a three-dimensional sign (shape of a product or packaging), an audible sign (sound), an olfactory sign (scent or smell), a moving image, a hologram, a taste or a texture of a product to be a mark.

3. Protection

A mark is protected by its registration as a mark under the relevant trademark law or, in some countries, also through its use as a mark in the marketplace. Even where a mark is protected through use, it is advisable to register it as a mark as such registration provides stronger protection in case a dispute concerning a mark requires intervention of other persons or a court of law.

<Requirements for registration>

- The trademark must be distinctive. For a mark to be considered distinctive,
- It should either be inherently distinctive or
- It should have acquired distinctiveness through its use as a mark in the marketplace, which helps it to acquire a secondary meaning as a mark.

The initial registration of a mark is generally valid for 10 years. It may be renewed indefinitely provided the renewal fee is paid in time. Trademark rights may therefore continue indefinitely, as long as the mark is neither abandoned by the trademark owner, nor loses its distinctiveness in The marketplace as a trademark by becoming a generic term.

4. The trademark owner has the following rights.

- Trademark rights are territorial in nature. In the relevant territory, a trademark owner has the exclusive right to use the trademark on or in relation to products and to authorize others to use it in like manner on mutually agreed terms and conditions that generally include a recurring payment.

- The owner may enforce the exclusive rights in a mark by taking recourse to a country's judicial system.
- The court may, at the request of the owner, prevent any person from attempting to copy or copying a mark thereby free riding on its reputation or goodwill by selling competing, related or counterfeiting products.

3. Strengthening Brands through Industrial Designs

Attracting a consumer in a crowded marketplace is always a challenge, even for products based on market-leading technology. The brand or mark plays an important role. But often it is the external appearance that may first catch the eye of a potential consumer. Good design often wins passionate brand loyalty as in the case of Apple's iPod.



Design savvy businesses integrate design fully into the product development process, so that aesthetic considerations are taken into account alongside the engineering aspects of the new or improved product. They also protect the distinctive appearance of their products by registering the design. This is true of a very wide range of products, including high-tech products, such as cars, washing machines, mobile phones, and so on. In a well designed product, there is harmony between its functionality and its form, with both adding to its value.

More Reference 1-2: Basics of Industrial designs

2. Definition

An industrial design is generally the ornamental or aesthetic aspects of a product. It may consist of three-dimensional features, such as the shape or configuration of an article, or of two-dimensional features, such as

images, pictures, drawings, and so on that rely on patterns line or colors.

3. Character

(1) Industrial designs are relevant to a wide variety of products of industry, fashion and handicrafts from technical and medical instruments to watches, jewelry, and other luxury items; from household products, toys furniture and electrical appliances to cars and architectural structures; from textile designs to sports equipment. Industrial design is also important in relation to packaging, containers and “get-up” of products.

(2) In the recent past, design protection has been extended in many countries to electronic desktop icons generated by computer code, type faces, the graphic display on computer monitors, mobile phones, and the like.

3. Protection

<Requirements for registration>

- It must be new or novel.
- It must be original. (created by the designer and is not a copy or an imitation of existing designs)
- It must have an individual character.

The term of protection for a registered industrial design may vary from one country to another, and it varies from 10 to 25 years. In most countries, protection of industrial designs requires registration in a particular class but the protection is not limited to the goods in that class of goods. In some countries, mostly in Europe, a copyright-like protection is also available to unregistered designs.

4. The industrial design owner has the following rights.

(2) An industrial design provides its owner the exclusive right to prevent unauthorized copying or imitation by third parties.

(3) This includes the right to exclude all others from making, offering, putting on the market, importing, exporting, using, selling, or stocking for such purposes by others of product in which the design is incorporated or the which it is applied.

LEARNING POINT 2: Building the Brands

2. Basic rules for selecting a mark

A brand identity should clearly support business goals and objectives. Are there any basic rules to build a new brand? While selecting or creating a new mark one has to consider a wide range of issues that may be linked to factors such as the relevant languages, culturally determined meaning of colors, technical requirements for printing or digitizing a mark, and, of course, all the legal requirements that arise out of the relevant trademark law(s) and practice(s) in the relevant territory or territories.

If a trademark is to be used internationally, it may be a major practical challenge to create or select a mark that has no meaning or does not have a negative meaning or connotation in any of the relevant languages. To prevent loss of time or money this challenge must be resolved much before advertising the product. In fact, given the fairly long time taken to 'clear a proposed mark' and to register it as a trademark, this process is normally begun at an early stage of the product development process.

While there are no hard and fast rules for creating or selecting a word to be used as a mark, the following five-point checklist is a useful way to start.

(1) Legal Requirements

Verify whether the proposed mark meets all the absolute grounds or legal requirements for registration as a mark.

(2) Language requirements

Make sure a proposed word mark is easy to read, spell, remember, retrieve, and is suitable for all types of advertising media. It should not be generic, laudatory or descriptive of the product in relation to which it is to be used.

(3) Trademark search

Do a trademark search to make sure that it is not identical or confusingly similar to existing marks in the relevant category of products. It is generally advisable to do this for at least three different proposed marks. This includes searching all the relevant trademark databases; searching dictionaries for similar looking or sounding words in all the relevant languages; and looking at marks in use in the relevant markets, including well-known marks.

(4) Connotation

Make sure the proposed marks do not have any undesirable or negative connotations in any of the relevant languages in the domestic or export markets.

(5) Domain name

Confirm the availability of the corresponding domain name (i.e., Internet address).

More Reference 2-1: Easily accepted words marks

2. Coined and arbitrary words

(2) Coined words

The most usual choice of words registered as marks are meaningless, invented words, or so-called coined words. A famous example is KODAK.

(3) Arbitrary (or fanciful) words

Like a coined word, an arbitrary word used as a mark does not describe or hint at any attribute of the product in question. For example, ELEPHANT for marketing mobile phones, RAINBOW for a travel agency, or CHAOS for a washing machine.

On the other hand, using a coined or arbitrary word as a mark generally requires high initial advertising investment to create consumer awareness about the link between the product and the mark.

2. Suggestive words

A suggestive word, when used as a mark, hints at the product or at

some attribute(s) of the product. This makes it easy to use it in any form of advertising. Also consumers more easily remember a suggestive word than a coined or arbitrary word.

Airbus, Nescafe and SWATCH (Swiss Watch) are examples of suggestive marks.

2. Branding strategies

As a lot of expense may be incurred in creating, registering, using, monitoring, and protecting a mark, therefore, would you recommend the use of one mark for all products of a business or a new mark for each new product introduced by a business or some else? The answer to this question would depend on a range of factors, such as the type of the product, the nature of competition, the marketing strategy of a company and that of its competitors. So, for good reasons, different businesses adopt different branding strategies for marketing their products. The same business may vary its strategy over time and even at a given point in time it may adopt varying strategies for different market segments in the same country or for markets abroad.

(1) Multi-brand strategy

Some businesses follow a multi brand strategy marketing two or more similar and competing products under different and unrelated brands.

For example, Guangdong Kelon Electrical Holdings, a Chinese company, follows a multi brand strategy for marketing its refrigerators and air conditioners. For refrigerators, Kelon is the high-end brand, Ronshen is the middle- to high-end brand, and Combine is the low-end brand. The company has three assembly lines, and advertises the three brands separately.

Another example is Nike, which started as a shoestring operation in 1964 under the name Blue Ribbon Sports, has rapidly grown and taken the mantle of the industry's No. 1 from Adidas. It recently has made several acquisitions that allow the company to market to discount shoppers under

the Starter brand; "lifestyle" consumers in the middle-market channel under the Converse sneaker brand; and keep its core premium customers with the signature Nike brand.

(2) Family brand strategy

A family brand is a brand which is used on a group of products of a given company. A family brand may be the corporate brand or there may be number of family brands under a corporate brand. The product group may or may not be all of those businesses' product line. Good examples include brands in the food industry, including Kellogg's, Heinz and Del Monte.

Learn more: Combination brand names or secondary brand identification

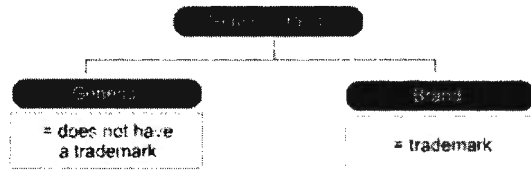
The use of a family brand saves money on branding but may also create problems if one of the products gets bad publicity or is a failure in a market. This can damage the reputation of a whole range of brands. So, it may be better for individual members of the family to also carry individual brands to differentiate them from other family members. Thus, you would have combination brand names or secondary brand identification. Often companies may maintain their family brand name on all their products while also applying an individual brand name to each product line.

More Reference 2-2: Co-branding

Brands are often not used alone but in combination. There are various ways of doing so. Sometimes two companies come together in a joint Venture that uses the two brands together.

For example, MARUTI and SUZUKI are used together for cars in india. This is an example of co-branding where two or more brand names are used in support of a new product, service or venture. This may also be done after mergers or acquisitions of companies.

More Reference 2-3: Generic brands



A mark may have become generic having lost its distinctiveness or it continues to be a functioning brand. It cannot be both. Indeed, this combination of words is an oxymoron.

The term generic brand is used by many in marketing circles to refer to what may be considered to be poorly differentiated marks, targeted towards consumers that do not necessarily care about a brand name. Generic brands are also called Savings brands.

Example Sunmark (generic brand) Pregnancy Tests



This Sunmark generic pregnancy test is simple to use, produces results in just 3 minutes and is far less expensive than name brand pregnancy tests. The twin pack of these pregnancy tests is less than the price of some single packs.

3. Product extension and branding

Many businesses use an existing brand for a new product to save time and money. Product extensions are new products or services introduced under an established brand name either in the same (line extension) or a new (brand extension) product category.

(3) Line Extension

An established brand name is used to enter a new market segment in the same product class. A new variation of a product or service sharing the same essential characteristics as the parent, but offering a new benefit, such as flavor, size, package type, etc.

(4) Brand Extension

An established brand name is used to enter a completely different product

class. A new product or service that is related to an existing brand, but that offers a different benefit and/or appeals to a different target segment.

The above two terms are used often in ambiguous ways. For example, sometimes a brand extension is defined as a product line extension marketed under the same general brand as a previous item or items in the same line. To distinguish the brand extension from the other item(s) under the primary brand, one can either add a secondary brand identification or add a generic. Thus, an Epson FX-85 printer is an extension of Epson that used the secondary brand of FX-85, while Jello Instant Pudding is an extension of the Jello brand that uses a generic term. A brand extension is usually aimed at another segment of the general market for the overall brand. Other examples of such brand names include Microsoft XP and Microsoft Office in personal computing software and Heinz Tomato Ketchup and Heinz Pet Foods.

From a trademark perspective, using a secondary brand identification may have cost implications if the extension is treated as a new mark or requires a separate trademark registration. Many trademark offices allow variants of a trademark to be included in a single registration, whereas others require a new application for registering it as a new mark when the modification is considered to be significant. Ordinarily, adding a secondary brand identification would be seen by most trademark offices as a modification requiring a new registration covering the secondary brand. So, perhaps, making use of a generic as an additional phrase may be considered if cost considerations are becoming predominant.

On the positive side, a brand extension may symbolize stability and quality, and thereby give credibility to the new product. In short order, you evolve from a single-product company to a firm that offers a family of related applications. By sending a signal of strength to your competitors, it would make them think twice before competing with either your flagship application

or your brand extensions. This would happen particularly if they see that you have a well-rounded family of brands that is making a splash in the marketplace. On the negative side a brand extension may blur the identity or image of your brand if the extension confuses to wonder as to what the parent brand represents.

Learn more: Parent brand & Sub-brand

3. Parent Brand: A strong brand that has the capacity to:

- (3) stand alone to represent a core product or service;
- (4) support allied products/services by sharing its brand identity, directly or through endorsement.

2. Sub-Brand

A product or service that has:

- (3) a persona and brand values that separate it from the parent brand.
- (4) its own brand identity, which is proprietary and can be trademarked.

LEARNING POINT 3: How to protect trademark and industrial design

3. The value of registration

(3) Trademark

It is true that unregistered marks are also protected as marks. So, registration of a mark is not essential for its use as a trademark, especially in a common law country. In addition to, or in the absence of, common law, the law of unfair competition may be relied upon to protect unregistered marks. However, in both these situations the protection is weaker than that of a registered mark.

In a dispute concerning an unregistered mark, two points have to be proved, by abducting convincing evidence, which are not required to be proved for a registered mark. Firstly, the ownership of the mark has to be proved. Secondly, it has to be proved that the claimed mark actually functions as a mark in relation to the goods or services in question.

For a registered mark, both these are presumed to be true. So, in a dispute concerning a registered mark, it is much easier to succeed in an action for trademark infringement, which is brought by the trademark owner against others that use an identical or confusingly similar mark for the same or closed related goods and services. That is, in litigation, registered marks are more potent weapons than unregistered marks.

Further, at common law, a trademark covers only the geographic region in a country where the goods are sold or the service is provided under it. So, someone else in another region may use the same trademark as long as the two territories do not overlap. If a common law trademark owner chooses to expand into another region where an identical or similar trademark is being used by someone else, then other person might be able to stop the common law trademark owner from using the trademark in that region, even if the common law trademark owner was using the trademark from an earlier date. However, in the case of a registered mark, the registration covers the whole country or region for which it is registered as a mark. It must be noted, however, that a well-known mark is deemed to be registered in all classes of goods and services even if it is not registered in any of these.

(4) Industrial Design

Design registration makes business sense when it improves the competitiveness of a business and brings in additional revenue in one or more of the following ways:

- a. By registering a design you have a greater ability to prevent it from being copied and imitated by competitors, and thereby strengthen your competitive position.
- b. The exclusivity provided by registration contributes to obtaining a fair return on investment made in creating and marketing the relevant product, and thereby improves your profits.
- c. Industrial designs are business assets that can increase the commercial value of a company and its products. The more successful a design, the higher is its value to the company and its brands.
- d. A protected design may also be licensed (or sold) to others for a fee. By licensing it, you may be able to enter markets that you are otherwise unable to serve.
- e. Registration of industrial designs encourages fair competition and honest trade practices, which, in turn, promote the production of a diverse range of aesthetically attractive products.

2. Basic steps for registration

(3) Trademark

The actual steps taken by a trademark office to register a mark vary from country to country but, broadly speaking, all trademark offices follow a similar procedure:

a. Application

A duly filled in trademark application form, along with the prescribed minimum documents is submitted to the national trademark office, which is set up and functions in accordance with the provisions of the national trademark law.

b. Formal examination

Trademark office examines the application to make sure that it complies with the administrative requirements or formalities such as whether the application fee has been paid and the application form is properly filled in.

c. Substantive examination

- All trademark offices are required, under their respective trademark law, to examine whether a proposed mark complies with the requirements of all the absolute grounds under which certain types of marks are always refused registration. These grounds vary from one country to another.
- In addition, in many countries, the applicable trademark law requires the office to verify if the proposed mark is in conflict with an existing mark on the register in the relevant class(es) of goods and/or services. This is known as examination on relative grounds. The principal factors considered by the trademark examiner or attorney in determining whether there would be a *likelihood of confusion* are: (1) the similarity of the marks; and (2) the commercial relationship between the goods and/or services listed in the application.
- To find a conflict, the marks do not have to be identical, and the goods and/or services do not have to be the same. It may be enough that the marks are similar and the goods and/or services related. If a conflict exists between a proposed mark and a registered mark, the trademark examiner will refuse registration on the ground of *likelihood of confusion*. If a conflict exists between a proposed mark and a mark in an earlier filed pending application, the trademark examiner or attorney will notify the applicant of the potential conflict. If the mark in the earlier-filed application gets registered, the registration of the later-filed conflicting mark will be refused on the ground of *likelihood of confusion*.
- The registration of a mark may also be refused, depending on the exact provisions of the relevant trademark law and examination

guidelines for the trademark examiner or attorney, if it is considered to be, for example, in conflict with a well-known mark or is a generic term, descriptive, deceptive as to the nature of the goods or place of its origin, primarily merely a surname, or ornamental.

d. Publication and opposition

In many countries, the proposed mark is published in an official gazette or journal so that any third party may oppose its registration within a specified period of time. In other countries, a proposed mark is published also or only after it has been accepted for registration, with the possibility of subsequently filing a petition, within a specified period of time, to cancel the registration. If the mark is not opposed or if the oppositions are unsuccessful, the mark is then registered.

e. Registration

Once it has been decided that there are no grounds for refusal, the trademark is registered, and a registration certificate is issued that is generally valid for 10 years.

f. Renewal

A registered mark may be renewed indefinitely by paying the required renewal fees. However, a registration may be cancelled for some or all the goods or services if the mark has not been used for a certain period of time as specified in the relevant trademark law.

More Reference 3-1: Trademark search

Millions of trademarks are in use all over the world. A lot of new marks are registered everyday around the world. Therefore, it is becoming more and more difficult to find a new mark, especially a word mark, which is not identical with, or similar to, an existing mark in use on identical or related products. So, before using or planning to register a mark, you should clear a proposed mark by doing or getting done a proper trademark search.

Trademark searches must be made in three areas:

- 1 Firstly, in registers in all countries of interest for identical or similar marks for similar goods and services.
- 2 Secondly, in all the relevant marketplaces to verify whether an identical or similar mark is already in use for similar goods or services.
- 3 Thirdly, in domain names as a mark may be used in a domain name or the other way around, that is, a domain name may be used as a mark, or as a trade name, and thus become an obstacle for the proposed mark.

More Reference 3-2: Trademark renewal

3. If the appearance of a trademark has changed, it should be re-registered in its new version.
4. There is no restriction on modifying or adapting marks, but a business world have to consult with the trademark office concerned or a competent trademark professional in order to determine the cost and procedure involved in registering the change.
5. The modification of a trademark should suit the nature of the product and not simply be done for the sake of a modern look, as there is always a risk of confusing loyal consumers.
6. Nowadays, a number of variants of a trademark are offer created right from the start, for example, for use in different media. In response to such needs, in recent years, many trademark offices have permitted registration of variants of a trademark in a single registration.

(2) Industrial Design

The procedure for registering industrial designs is similar to that for trademarks,

but normally, the time taken for registering a design is shorter than for registration of a trademark. In most countries, design registration process is completed in three to nine months, whereas a trademark registration process may take any thing from twelve months to a few years if the registration is opposed.

a. Application

To register a design, you have to file an application at the national design office, along with copies of an adequate number of drawing and/or photographs that depict all the essential distinctive features of the design. The prescribed fee has also to be paid. You do not have to file a model, sample, or prototype of the design. However, in some countries the examiner may ask for a sample of the design to understand it better or to feel its texture or material. In some countries, you may be required to file, or have the option of filing, a written description or statement of novelty of the design.

b. Formal examination

All design offices undertake a formal examination to ensure that all the administrative formalities have been complied with.

c. Substantive examination

All design offices also conduct a partial substantive examination to verify if the proposed design is not be rejected on absolute grounds. Some design offices also do a full search against existing design registrations to check for novelty, individual character or originality. An increasing number of offices are accepting registrations without verifying its novelty, individual character or originality.

d. Registration

Design registrations are being granted rather quickly, within three to six months of filing the application for registration of a design.

e. Publication

Accepted designs are published in the design gazette or journal. In many countries, on the request of the applicant, a registered design is kept secret, that is, its publication is delayed.

3. Multi-protection

While a trademark and an industrial design are two distinct types of intellectual property, each is capable of providing significant commercial advantages to its owner. Both types of rights may be available simultaneously for a given product if it meets the legal requirements for protection under the respective laws.

(3) Design & Patent/Utility Model

Sometimes, it is difficult to separate the elements of functionality from those of the form of a product. Take the example of the shape of a vehicle, or the keyboard of a computer or laptop. How do you protect such composite designs, which are partly functional and partly aesthetic?

The industrial design law protects only the outward appearance of an article, and not its structural or functional features. Therefore, you should consider patent or utility model protection to obtain exclusive rights over the functional improvements of an article. In determining whether a design is primarily functional or primarily ornamental, the claimed design is viewed in its entirety, and not on a feature-by-feature basis. When a new product combines functional improvements along with innovative aesthetic features, it would be better to apply for one or more patents for the functional improvements and one or more design registrations for the aesthetic improvements.

Let us look at some examples. The radiator grille design at the front end of a car has functional aerodynamic features, but it also has aesthetic features and appeal that may be protected as an industrial design. Let us say you have designed a new or improved mobile phone. While a new or improved mobile phone may be the result of a technical breakthrough or significant evolutionary improvements to the electronic components that could be protected by one or more patents, the novel or original design of the digital

display or icons on the screen of the mobile phone may be registered as an industrial design.

(4) Design & Copyright

In some countries a design may be protected simultaneously by copyright law and by industrial design law. What does that mean? It is a very important and difficult question, which has to be answered frequently in the outsourcing of production to other countries and also in the context of exports.

Let us try and explain a complex area of law in a simple way. In many countries, one may obtain dual or cumulative protection for certain types of industrial design by copyright law as well as industrial design law [and not for others]. In some countries the two types of protection are mutually exclusive for all types of designs. In still others, the overlap or extent of dual protection varies considerably; for example, the copyright is suspended for the entire period during which registered design right subsists.

In some countries, works of applied art or artistic craftsmanship are protected by copyright. For example, in the USA, the designs of products such as toys are considered to be works of applied art and hence are protected by copyright.

When both options are available, the first step, before taking any decision on how best to protect a design, is to understand the differences between these two forms of protection in that country and to see whether one or the other or both together would better serve the objectives of the business. The protection afforded by a registered industrial design is stronger, in that it covers even unintentional infringement. And the registration certificate is an important proof in case of its infringement. But registering a design may involve a significant financial and administrative effort, and it is of shorter

duration than copyright protection. So making a choice between copyright and design right is never automatic; in a given situation a decision should be made only after taking all the costs and benefits of both types of protection fully into account.

Until a design is registered, it is generally advisable to keep good records of every step in the development of the design. Signing and dating each sketch, and properly archiving these, may greatly help in case of infringement.

(5) Design & Trademark

Let us explain a little about when an industrial design can be also protected by or as a trademark. In other words, is it possible to have a dual design and trademark protection? You will recall that a trademark is a distinctive sign that serves to differentiate the products of one business from those of others. If the form, design or packaging of a given product is or becomes a distinctive feature of the product in question, then in some countries it may be protectable as a three-dimensional trademark or as trade dress under the trademark law.

The unique shape of a bottle of Coca-Cola and the peculiar triangular shape of the Toblerone chocolate bar are examples of three-dimensional marks or trade dress. The shape of the bottle of Coca-Cola was initially an industrial design and only later it was registered as a trademark in many countries. Rarely would a product be protected by a design right and by a trademark registration on the day of its launch or early on in its life cycle. Once a design acquires distinctiveness through its use in the market over a period of time, it may qualify for being registered as a mark. So, only at that stage an application for its registration as a mark should be filed. As design registration is for a maximum of 10 to 25 years, depending on the country, and trademark registration may be renewed forever, therefore, after

some time the design registration will lapse and only trademark registration may be continued indefinitely.

Therefore, many IP savvy companies take steps to use a particularly well-accepted new or original design in the trademark sense in their branding and marketing strategy to facilitate its eventual registration as a mark. So, one more reason for registering a new or original design as an industrial design is to protect it to the extent possible while it is in the process of acquiring distinctiveness through use, which is required for its eventual registration as a mark.

While an industrial design and a trademark are two distinct types of intellectual property, each is capable of providing significant commercial advantages to its owner. Both types of rights may be available simultaneously for a given shape if it meets the legal requirements for protection under the respective laws. It is interesting to note that, in many countries, computer or desktop icons may be protected simultaneously as industrial designs and as trademarks. For example, Sun Microsystems has registered the coffee-cup symbol for its Java product as a trademark, and also has a design registration for the coffee cup combined with the words “Java Workshop.” This is done to take advantage of the stronger protection afforded by design registration, in addition to the weaker but longer term protection possible through its trademark registration.

LEARNING POINT 4: Trademark management

1. How to use a trademark

Improper use of a trademark may result in its loss that is, making it a generic term that is no longer distinctive of a particular manufacturer's product or

provider's service. In the past, this has happened to many leading trademarks, which became synonymous with the product. To avoid this, always use the trade mark in association with a generic description of the product.

This will ensure that consumers become aware of the trade mark nature of the mark, and do not consider it to be a generic description of the goods. This is especially important rule for patented products that are sold for a long period without competition. If this is not done, there is a real danger that once the patent expires, the trade mark may become a generic name.

For example, 'ESCALATOR' was once a trademark. However, its improper usage by the trademark owner and the public led to the term 'escalator' mean any moving stairs, and thus it went into the public domain. ASPIRIN, CELLOPHANE, FRIGIDAIRE, and GRAMOPHONE are other examples of well known trademarks that have come into common usage in such a way that they have lost their identification and differentiating function.

To maintain your trademark rights, all marks should be used regularly as trademarks, and exactly as they are registered. This helps to convey the key characteristic of a trademark or brand, namely, consistency. A key component of successful branding is consistency. A consistent image is everything. A brand is your business's philosophy or uniqueness that is instantly translated through a visual phrase or symbol. Used consistently, this symbol will provide immediate recognition, build employee pride and consumer loyalty, and position your business for success.

Under most trademark laws, a mark that is not used for a continuous period of three or five years is liable to be removed from the trademark register. Of course, the exact meaning of 'use of mark in commerce or trade or business' is different in different countries. For example, in some countries, the mere use of a mark in advertising may be considered as use of mark.

2. Trademark audit

Given the considerable investment required for brand building a business ought to also periodically audit its efforts in doing so. This will help to verify whether all its activities are in conformity with the stated objectives and goals, and whether these were implemented in the most cost effective manner so as to derive the maximum leverage and greatest impact on consumers. So, like a patent audit, a trademark audit is done periodically to determine whether effective and efficient use of resources has been made. More importantly, the audit findings are used to guide the future efforts of the business to maintain and grow a cost-effective trademark portfolio.

A trademark audit entails at least a review of all the trademarks owned by a business, which of these are valuable, and what must be done to maintain all the trademark registrations in a timely and cost-effective manner. The cost of maintaining, policing and enforcing each mark should be evaluated against the benefits accrued before deciding which of the marks need to be renewed, or revitalized, or which ones may be abandoned, sold or licensed to others. When a product is not doing well in a market segment it may have to be repositioned in that or another market segment in the same or another market.

This may entail making modifications to its mark or creating a new mark to suit its new image. When a product fails or it has been decided to discontinue it, its mark may be abandoned, sold or licensed, depending on the available options and the business strategy chosen by a business.

A trademark audit may also evaluate the contribution of individual marks to the trademark portfolio or in building the brand strategy and brand equity of the business. In this manner, a trademark audit may contribute significantly to the efforts of a business to reevaluate its strategy in the use of its trademarks and to review its overall marketing policies, including pricing policies.

QUIZ

Q1. Identify the incorrect statement

- 1) A trademark is a sign capable of distinguishing the goods or services produced or provided by one enterprise from those of other enterprises.
- 2) Registration of a trademark is a compulsory requirement to protect its marks around the world.
- 3) Registration of a trademark is generally valid for 10 years, and it may be renewed indefinitely provided renewal fees are paid in time
- 4) A trademark provides protection to the owner of the mark by ensuring the exclusive right to use it to identify goods or services, or to authorize another to use it in return for payment.

Answer : 3)

Trademark protection can be obtained through registration or, in some countries, also through use. For example, trademark rights are initially created automatically by using the trademark in commerce in all common law countries, such as the U.S.A, UK, India, etc. Even though trademarks are protected through use, it is advisable to register a trademark, as registration provides much stronger protection and make it much easier for the trademark owner to prove its case in court.

Q2. Identify the incorrect statement:

- 1) Designers should file an application before the national office in order to register a design.
- 2) An industrial design provides its owner the exclusive right to prevent unauthorized copying or imitation by third parties. This includes the right to exclude all others from making, offering, putting on the market, importing, exporting, using, selling, or stocking for such purposes by others of product in which the design is incorporated or to which it is applied.
- 3) An industrial design may protect the structural or functional features of an article of manufacture.
- 4) In most countries, registration is compulsory to protect a creative design. However, some countries protect an unregistered design for a short period.

Answer : 3)

An industrial design protects the ornamental appearance of a goods, not its structural or functional features. An article protected under an industrial design law must be primarily ornamental and not primarily functional. Therefore, to obtain exclusivity over the functional improvements of a product, you may apply for a patent or utility model protection. However, in determining whether a design is primarily functional or primarily ornamental, the claimed design is viewed in its entirety, not on a feature-by-feature basis. It is often the case that a new product combines functional improvements with innovative aesthetic features. In such a case, it would be better to apply for the protection of both a patent and an industrial design.

Q3. Identify the incorrect statement:

- 1) A proposed word mark must be easy to read, spell, pronounce and remember.
- 2) A proposed mark should not be identical or confusingly similar to existing marks in the relevant category of products.
- 3) A proposed mark should be descriptive of the product or of one or more its key features so that customers are be able to easily associate the mark with the product
- 4) A proposed mark should not have any undesirable or negative connotations in any of the relevant languages in the domestic or export markets.

Answer : 3)

A mark which is descriptive of the product to which it pertains cannot help in differentiating it from identical or similar products offered by competitors in the market place. Further, monopoly over descriptive terms constrains the legitimate desire of competitors to use ordinary works to describe the characteristics of the products while advertising the products. The strongest marks are those which are coined or "fanciful" words followed by marks that use words that have a meaning which has no relation to the product they advertise.

MODULE

03

Inventions and Patents

MODULE 03. Inventions and Patents

OUTLINE

LEARNING POINT 1: Basics of invention and patent

1. One way of adding value to a product
2. Reasons for patenting an invention

LEARNING POINT 2: Patent application

3. Evaluating the patentability of an invention
4. Deciding whether to patent an invention
5. Preparing a patent application
 - (1) Detailed description of the invention
 - (2) Claims
 - (3) Who prepares
 - (4) After filing a patent application

LEARNING POINT 3: Patent infringement

3. Definition of patent infringement
4. If you come across your competitor's patent

LEARNING POINT 4: Patent management system

3. Basic elements of a patent management system
4. Patent portfolio

INTRODUCTION

The term "intellectual property (IP)" is defined as the property resulting from creations of the human mind, the intellect. In this regard, it is fair that the person making efforts for an intellectual creation has some benefit as a result of this endeavor. Probably, the most important among intellectual properties is "patent."

A patent is an exclusive right granted by a government for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem. The details on the way of acquiring patents will be provided for protecting precious intellectual properties.

LEARNING OBJECTIVES

3. You understand how to decide whether your new technology or invention should be protected by one or more patents and, if so, how to do so.
4. You know how the grant of a patent over an invention or technology helps you to prevent or have an upper hand in legal disputes that may arise later on.
5. If you are already involved in such a legal dispute, you know how to find a way to minimize the damage or loss.
6. You understand why a patent management strategy is important for the survival and competitiveness of your company and how to develop and implement one.

LEARNING POINT 1: Basics of invention and patent

3. One way of adding value to a product

In an increasingly knowledge-driven economy, you invariably need creative or inventive ideas or concepts to improve an existing feature, add a useful new feature to your product or develop a totally new product. If your business develops such an idea or concept that solves a technical problem in an unexpectedly new or better way then it should take adequate and timely steps to protect its creative idea, concept or knowledge by converting it into a proprietary technical advantage by patenting it.

More Reference 1-1: How to invent

Many people seem to think that a flash of inspiration or genius is necessary to spark creativity or inventions or that it invariably involves major scientific discoveries or great research and technological development in big public or corporate R & D laboratories or research-based universities. Even in the United States of America, till 1930, individual inventors outnumbered every other category in terms of number of patents granted by the US Patent Office. For the first time, in 1931, U.S. corporations received more patents than U.S. individual inventors did and their lead has kept widening ever since.

It must be noted that most of the patented inventions are not major breakthroughs but incremental though non-obvious technical improvements over the relevant prior art. Also, some famous inventions represented only a modest advance in fundamental technology and were made by ordinary people or individual inventors. In fact, some famous inventions were based on a chance discovery, insight or a mere accident that produced unexpected results that were not only noticed by a prepared mind but also put to a practical business use by the same or another person.

For example, in the 1940's, on returning home after walking his dog in the mountains, Swiss inventor George de Mestral noticed that his dog and his pants were covered with seeds called 'burrs'. On taking a closer look at the seeds under the microscope, he recognized the potential for a new fastener

based on the natural hook-like shapes on the surface of burrs. Initially, his idea was met with resistance. But he persisted in refining his invention by trial and error over eight years. He finally realized that nylon when sewn under infrared light formed tough hooks for the burr side of the fastener. He perfected his invention while working along with a weaver from a textile plant in France and patented it in 1955. Eventually, he had developed two strips of nylon fabric, one containing thousands of small hooks, just like the burrs, and the other with soft loops, just like the fabric of his pants. When the two strips were pressed together, they formed a strong bond, but one that's easily separated, lightweight, durable, and washable. This is how Velcro was born. The inventor went on to establish Velcro Industries to manufacture products that were based on his patented invention.

More Reference 1-2: Improving functionality of a product

1. Definition of functionality

'Functionality,' that is, technical functionality, may also be described as a useful feature or a performance attribute of an invention, technology or product.

Such a feature may be in a new or improved material, machine, apparatus, testing or measuring equipment, component of a product, product, or a method or process for making any of these. It could also be a new use of an existing material or a new combination of prior known but separate features that produce an unexpected new result.

So, broadly speaking, technical functionality of a product refers to its ability to perform a utilitarian process, task or activity. For example, it may provide greater comfort in use, be easier to digest, safer to use, or superior to other products in terms of ease of disposal, maintenance, repair, storage, transport or use.

2. Inventions made by improving functionality of a product

Any one or more of such type of functional characteristics may differentiate one product from another.

For improving or creating these types of functional features you would generally need one or more new or improved inventions which may be incorporated into one or more new or improved technologies.

More Reference 1-3: Sources of Inventions

1. From in-house R&D facilities

If your business has some in-house research and development (R & D) capability, then it would be creating new or improved technology or adapting existing technology to meet your emerging needs.

2. From the marketing and sales side

Even if your business has no formal R & D facilities, yet some of your employees on the shop floor may be inventing, often without realizing it, while copying competing products or when required making adaptations to your existing products for a variety of reasons. Inventive ideas may come from any part of the company. A particularly good place to find inventions is on the marketing and sales side, who is in touch with the market trends and emerging needs of customers, and may come up with technical solutions to such needs.

3. From outside of the company

However, even when you have in-house R & D capability, there are many situations in which you may have to look for inventions or technology from outside your company.

a. Free source

Sometimes, you may get it free, for example, from the numerous, free, and easily available online patent databases, which include a lot of technologies that were either not protected at all in your market or by now their patent protection has lapsed or expired. As the information contained in a patent is free for anyone to use, both directly and indirectly, depending on the patent's legal status, therefore, you must always try this route, before developing it in-house and before looking around to buy it from outside.

Most patent savvy businesses skillfully use patent databases, for example, to identify opportunities for adapting or acquiring patented inventions, or technologies. Also, mining a patent database may provide you with a solid basis for developing new ideas and concepts. However, the availability of useful information in patent databases depends on the nature of your business or industry, as some areas of

technology have much more patent activity than others.

b. Licensing

But really useful new or improved technology is generally not available free of charge. In order to get useful inventions, you may have to buy or license it from others that are willing to do so on mutually acceptable terms and conditions.

More Reference 1-4: Identifying inventions

In order to get a Patent, first, you have to identify an invention. If you are an inventor-entrepreneur then it may be easier for you to identify an invention than if it were made by one or more of your employees in R & D or by a shop floor worker who is responsible for making improvements or adaptations to some machine or process in your manufacturing facility or by someone in the marketing department of your business. In fact, you may be surprised to know that not all inventions of great business merit result from expensive R & D that relies on high-tech equipment and considerable expense of time, knowledge, skill and other resources. Often, technicians and other shop floor workers, and sometimes even your staff responsible for marketing may make significant contributions to development of an invention to satisfy an identified market need. In other words, anyone in your own business or vendors, suppliers, and other business partners may come up with new ideas and concepts and help you to reduce it to practice

4. Reasons for patenting an invention

(1) Competitive edge, market power and earning more money

When you are able to use a patented invention embodied in a technology in your business, it is likely to improve your market power, provide your business with a competitive edge, and help you to make more money.

A patent provides protection when you disclose your invention publicly. For example, it would enable you to go to a fair, exhibition, or an industry trade show and display it without fear. It also enables you to go to a wholesaler or distributor and say with confidence that no one else in that market is

allowed to make, sell, use or distribute your new or improved product without your express approval. This may either diminish, or eliminate competition. If that happens there would be typically increased sales, and if marketed properly, you may be able to charge a higher price because your competition is barred from offering an equal product. So, whenever you are able to use a patented invention embodied in a technology in your business, it is likely to improve your market power, provides your business with a competitive edge over competitors, and help you to make more money.

(2) Add New Revenue Stream

You may be able to add a new revenue stream by licensing a patent, or better still, a portfolio of your patents.

Income from
product sales



Income from
IP licensing

(3) Raise funds and attract potential investors

- a. Patents may be bought, sold or licensed.
- b. Patents may also serves as collateral for bank loans.

Patents may attracts potential investors to your company, as they are happy to see some type of barrier to entry for competitors, which may not only protect your investments in R & D and, thereby, improve the return on your investments, but also may provide income through licensing of your patents to others.

Most venture capitalist, investment bankers, financial analysts, and other investors favorably recognize the value of a patent.

(4) Bargaining Chip for Securing “Freedom to Operate”

A patent application, a patent or a portfolio of patents, is not only an asset for earning licensing revenue, but it is also often a valuable trading or cross-licensing asset if your patent is faced with a dominating senior patent and/or complementary patents. It can also be used as a bargaining chip during licensing negotiations with a competitor or when you are accused by another of patent infringement. Generally, when such negotiations result in a stalemate, the two sides agree to cross-license their patent portfolios to each other, with little or no need for exchanging money.

So, a company, such as yours, may wish to obtain patents simply to defend itself against your competitor's patent portfolio, even though you may not want to take, or be capable of taking, any offensive action by relying on your patent portfolio. In other words, it improves your freedom to operate in the marketplace. The principal goal of a defensive IP strategy should be to obtain the freedom to market planned products. This process requires the identification and neutralization of any patent infringement risks.

(5) Selling the invention

Having a patent means you have a tradable asset which can therefore be sold. Generally, a large company will not agree to even talk to you unless one or more patents protect your technology or at least you have filed a patent application to protect your invention. It could be that your talks with a potential buyer end in failure. If that happens, you may need a way to stop such a party from stealing your idea, especially if a confidentiality agreement had not been signed or, even if such an agreement had been signed, if the other party acts in breach of it. Having a patent and thus the right to exclude the others enables you to take preventive action

(6) Strategic Partnerships, Mergers and Acquisitions, IPO, and Higher Sale Price

A patent or a patent portfolio may provide substantial value for entering new markets through strategic partnerships, or in mergers and acquisitions, and for getting a start-up company listed on the stock exchange through a good initial public offering (IPO) or for getting a higher sale price of an established company.

In fact, one of the most valuable assets that a technology company could have is a portfolio of patents consisting of patents that may be owned, co-owned or licensed from others.

(7) Convoyed sales

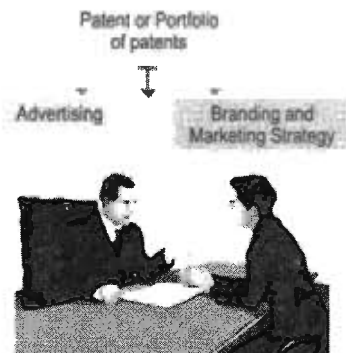
When a customer goes to a shop to buy one item, he often ends up buying other related items. Similarly, when a customer is attracted by a patented improvement of a product, increased sales of non-patented articles may follow. This happens when the patented product is a component of a more complex product or the patented product is sold in association with other products. These types of linked sales are known as add-on, collateral, derivative, follow-on or convoyed sales.

(8) Basis for Recognition and Rewarding Employees

A patent allows you to recognize or reward the tangible achievement to your inventor-employees.

(9) Part of Branding and Marketing Strategy

Not only employees, but also your product or even your whole business could use a patent or a portfolio of patents to signal higher technological capabilities, greater innovative abilities and superior performance, in your advertising, marketing and branding strategies.



More Reference 1-6: Role of Patent

An invention, by itself, is not like physical property that we own. But when a patent is used to protect an invention, the act of patenting makes it a kind of private property that the owner can control. But, in some respects, the rights in a patent are comparable to those of a title deed of a piece of land. A patent confers on its owner a legal right, as in the case of land, to stop all others from trespassing on the invention, just like the owner of a piece of land has the right to stop trespassers from entering, using or occupying his land.

However, unlike a title deed of land, a patent gives its owner not the right to use the protected invention but to prevent or stop all others from using it. The reason for this is that the invention could be based on a concept which was itself patented by someone else, and that other patent is still legally valid. In other words, this situation is the result of a patented invention being further improved in a novel and non-obvious way that becomes another patentable invention. So, while the boundaries of two distinct pieces of land never overlap, those of two patents may overlap.

In other words, a patent provides its owner a 'right to exclude' others but not a 'right or freedom to use' the patented invention. So, a patent gives its owner only an exclusive right to prevent or stop others, from making, using, offering for sale, selling or importing a product or process.

More Reference 1-5: Basics of a Patent

1. Definition

A patent is an exclusive right granted by a government for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem.

2. Criteria for granting a patent

In order to be patentable, an invention must meet the following three criteria:

- a. It must be new;
- b. It must involve an inventive step(that is, non-obvious to a person skilled in the relevant field of technology); and
- c. It must be capable of industrial application.

3. Period of Patent

A national or regional patent office grants a patent. Once granted, it can remain legally valid for a maximum period of 20 years that commences from the date on which the relevant patent application was filed, provided the periodic maintenance fees are duly paid during this period and the patent is not revoked or declared invalid by a court.

4. Territorial principle

A patent is a territorial right, thus it is limited to the geographical boundary of the relevant country or region for which it has been granted. For obtaining patent protection in other countries or regions, many patent applications may have to be filed at the relevant national or regional patent office in the legally prescribed time limit.

5. Use of Patent

Like the owner of any other private property, a patent owner has the right to prevent others from using it, abandon it, sell it, that is, assign it for a fee or free (gift), and allow one or many others to use it, while retaining its ownership, by 'licensing out' the patent for one or more specified purposes, during a specified time period, in one or more specified jurisdictions. Licensing is always done for a valid consideration that may be in cash or kind, as may be mutually agreed and specified in a written and formally signed license agreement.

LEARNING POINT 2: Patent application

3. Evaluating the patentability of an invention

You are under no obligation to conduct a prior art search before filing a patent application, and indeed, not all applications are preceded by such a search for want of time or lack of access to patent search facilities for cost or other reasons. For example, you may have no time to do so, if you identify patentable inventions only during a patent clearance procedure just prior to the

launch of a product in the market. Nevertheless, if you are able to do a prior art search it may help you to decide whether or not to file a patent application, and whether or not to make further improvements to the invention for getting a stronger patent. You may do a prior art search in-house, by using free on-line patent and non-patent databases and other paper-based sources of prior art. Or, if you can afford it, you may use the services of a fee-based value-added patent search service provider.

More Reference 2-1: Factors to be considered

1. When you evaluate the patentability of an invention, you would have to consider the following factors.
2. Is there a market for the invention, the technology or products incorporating it?
3. What are the alternatives to the invention, and how do they compare with your invention?
4. Is the invention useful for improving an existing product or developing a new product? If so, does it fit in with your company's business strategy?
5. Are there potential licensees or investors who will be willing to take the invention to market?
6. How valuable will the invention be to your business and to competitors?
7. Is it easy to "reverse engineer" your invention from your product or to "invent around" it?
8. How likely are others, especially competitors, to invent and patent what you have invented?
9. Do the expected profits from an exclusive position in the market justify the costs of patenting?
10. What aspects of the invention can be protected by one or more patents, how broad can this coverage be and will this provide commercially useful protection?

11. Will it be easy to identify infringements of the patent rights and are you ready to invest time and financial resources for enforcing your patent(s)?

2. Deciding whether to patent an invention

Be fully involved in the making of a decision as to whether it would be better off for the business to keep the invention as a trade secret or to go ahead with patenting it. This decision should not be left entirely to engineers or legal advisers, as they may not have the necessary broader view of the business goals to make a good decision.

To keep an invention secret or confidential, take all practical measures that are considered reasonable under the circumstances to ensure that information about the invention is given only to those employees who may need to deal with it and who are under a duty to keep confidentiality. This would minimize the chances of accidental or inadvertent disclosure of information to competitors and to your own employees who need not know about it. Keeping secrecy is crucial as once a trade secret is lost, it cannot be retrieved in most countries.

In some countries, utility model is another option that you may be able to consider before applying for a patent.

Learn more: Utility model

Some of the characteristics of utility models are:

3. The conditions for granting utility models are less stringent, as the “inventive step” requirement may be lower or absent altogether;
4. Procedures for granting utility models are generally faster and simpler than for patents;
5. Acquisition and maintenance fees are generally lower than those applicable to patents;

6. The maximum possible duration of utility models is usually much shorter than it is for patents;
7. Utility models may, in some countries, be limited to certain fields of technology and may only be available for products (not for processes); and
8. Usually, a utility model application or a granted utility model may be converted into a regular patent application.

There may be a third option of defensive publication. You may publish your invention if you do not consider it worthwhile to patent and if, at the same time, you would like to prevent all others from patenting it.

3. Preparing a patent application

(1) Detailed description of the invention

The detailed description must include:

- a. Detailed technical information about the features of the claimed invention;
- b. How the invention can be made or carried out; and
- c. Its application in industry or commerce.

More Reference 2-2: Main parts of a patent application

A patent application has many parts, such as the title, bibliographic information and an abstract. But, from our current purposes, the two most important parts of a patent application are the detailed description of the invention and the 'claims' which are usually at the end of the specification. The description discloses the invention in clear and precise terms.

Often, it is necessary to illustrate the new ideas or concepts by examples to explain how to work or carry out the invention in practice so as to enable a person skilled in the relevant field of technology to understand the claimed invention and use the technical information contained in the patent specification

to practice or repeat the invention without having to do undue experimentation. At the end of every patent specification, there are one or more numbered definitions, referred to as 'claims', which define particularly and distinctly the invention. Each claim is a single-sentence with a list of elements (or a list of steps in a method or process claim) and explains how they cooperate. Usually, most of the individual elements of a claim are old! What is new may be only the claimed combination of old elements or some old and some new elements. Also, in some countries, a claim may define a new use of an old product. It may also define a simplification of a known product or process.

(2) Claims

b. Role of claims

The claims demarcate in words the boundary of your invention. Claims are the heart of a patent, even though the description is important, and sometimes the drawings may also be important.

For example, the claims demarcate in words the boundary of your invention, just like a picket-fence defines the extent of land covered by a deed for a piece of land. If the description includes some features that are not covered by the claims, then all such features are not protected by the patent. That is, all such features become a part of the 'prior art' that may be used by others without your permission, and you would not be able to do anything about it.

c. Independent claims and dependent claims

Of the multiple claims in a patent, at least one or more are independent, while the rest are dependent. An independent claim is completely self-contained, whereas a dependent claim refers to one of earlier independent or dependent claims and is considered to include all of its own limitations as well as those of any one of the claims to which it refers.

It is important to note that an invention may be covered by one or more claims of a prior patent, and may still be patentable.

More Reference 2-3: Understanding Claims

1. Definition

The description explains in detail how to make and use the invention, whereas the claims define the scope of legal protection.

2. Rules of drafting claims

One cardinal rule to follow while drafting claims is to use the smallest number of words. So, a broad claim will have normally few parts; and the parts that are listed are defined broadly. A narrow claim will have more parts, or parts that are defined in a more restricted way. A broad

Valuable
patent

Invention

Broad claims

Narrow claims

claim is more likely to be infringed than a narrow claim.

However, a narrow claim, while less likely to be infringed, as it may permit competitors to easily 'invent around' it to enter the market with alternative features, is more likely to be held valid by a court.

(3) Who prepares

Generally, drafting a patent application is a time consuming, complex and expensive process, for which you need a good grasp of technical knowledge of the relevant field(s) of technology, a sound understanding of the applicable patent law or laws, and also of applicable court decisions. If you are not well versed with all of these, then you are strongly advised to use the services of a competent patent agent or attorney for preparing, filing, and prosecuting the patent application at the patent office. By doing so, you are more likely to get a commercially useful patent that is capable of meeting all of your business objectives.

(4) After filing a patent application

Once your patent application has been filed and the prescribed fees, if any, has been paid to the patent office, which is an office created by

government under the relevant patent law, the patent office begins the process of examining it. The detailed procedure of a patent office depends on the provisions of the relevant national or regional patent law. It varies a lot from one patent office to another. Broadly speaking, it has the following features.

b. Formality examination

First, a patent office examines the application to check if it has complied with all the administrative requirements or formalities. If not, then you are notified the deficiencies which must be addressed adequately in the time indicated by the patent office.

c. Substantive examination

Next, the patent examiner checks to see if the national or regional patent law does not exclude from its purview the subject matter of the patent application or considers the patent, if granted, to be contrary to public order or morality.

Some patent offices do not do any further examination. But most national and regional patent offices, especially the big ones, also do a fairly complete substantive examination to check if the patent application meets all the three basic conditions for patentability, namely, (1) novelty, (2) inventive step or non-obviousness, and (3) industrial applicability.

This process begins by undertaking a search of the relevant prior art that is accessible to the patent examiner. Often, while doing so, the patent examiner may seek clarifications or raise substantive objections that must be adequately answered by you, or your patent agent or attorney within the prescribed time frame. You may provide oral or written arguments or provide documentary evidence in support of your contentions while discussing or negotiating with the patent examiner. If you are unable to satisfy the patent examiner, then some of the claims may be narrowed in scope, other claims may be deleted, or if all claims are rejected then the patent application itself may be rejected by

the patent office. Depending on the applicable patent law, you may file an appeal against the decision of the patent examiner to a Board of Appeal in the patent office or to a competent court in law.

If you agree to the grant of a patent with narrower claims than what were originally drafted, then it is important to ensure that the description of the invention is reviewed and revised to exclude all information that is no longer required to be disclosed in these changed circumstances. Otherwise, in due course, when the patent application or the patent is published, you would find that you have inadvertently allowed some of your valuable trade secrets to be lost through such publication, as only the information covered by the granted claims is protected by a patent.

d. Grant of Patent

When a patent application is accepted for grant, then, depending on the applicable patent law, it would be published in the official journal of the patent office for inviting objections from the public (which is called 'pre-grant opposition'). Objections to grant of the patent must be filed by any aggrieved party during the specified period of time. Or, it may be published as granted with or without any pre-grant opposition, depending on the applicable patent law, and then allow post-grant opposition by aggrieved third parties. If the opposition succeeds partly then the patent may still be granted but with narrower claims that may not serve your purpose. If it fails, then you would be granted a patent and a certificate of grant would be issued and the granted patent published in the official journal or gazette of the patent office.

e. Publication

To get such useful rights as mentioned above, the applicant for a patent is required to disclose the claimed invention by providing its detailed, accurate and complete written description in the patent specification filed at the patent office. This description is initially kept secret but is

eventually disclosed to the public by the patent office. Publishing it in an official journal or gazette brings it the notice of the entire world, so to say. In a very large number of countries, an unexamined patent application is published after 18 months of the date of filing the patent (priority) application. All patent offices publish the patent at the time of its registration or grant.

Learn more: Pre-grant opposition & Post-grant opposition

1. Pre-grant opposition

In some countries, the grant of patent may be opposed by filing a pre-grant opposition. If the opposition is successful, then the patent may not be granted or the scope of the claims may be narrowed from what was requested.

2. Post-grant opposition

In other countries, the grant of patent may be opposed by filing a post-grant opposition. If the opposition is successful, then the granted patent may be invalidated or the scope of the claims may be narrowed from what was granted.

In some countries both options may be possible.

LEARNING POINT 3: Patent infringement

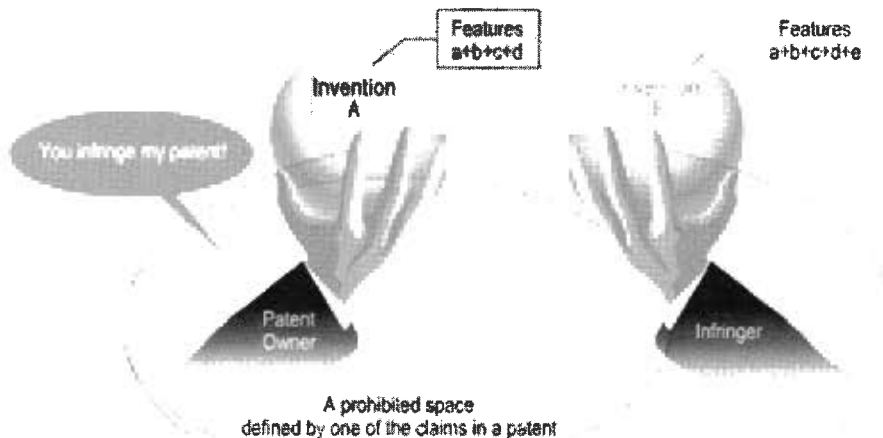
2. Definition of patent infringement

A patent owner has the right to exclude all others from using the patented invention, and any one who practices the invention without the owner's consent, infringes his rights.

By exactly following the details as revealed in a patent you would infringe on a patent, unless what you do is exempted as being an experimental or research use. But copying from a patent is not the only way for a business to violate a

patent. In fact, whether knowingly or unknowingly if you have incorporated a patented invention or practiced or incorporated an invention sufficiently similar to a patented invention, then you may be also hauled up for patent infringement. A patent owner can legally stop your business from using the patent, and also sue for damages. In many situations, an injunction may be equally or more costly than any potential damages levied by a court in due course. This may happen when you have a big inventory that must be destroyed and the retooling costs for modifying your production process.

So, technically speaking, patent infringement means others have entered a prohibited space defined by one of the claims in your patent. As we discussed earlier, a patent provides its owner with the right to prevent or stop others from making, using, selling or importing the patented product without the owner's permission for a period of 20 years calculated from filing date of the earliest relevant patent application. Therefore, the original patent owner or his assignee may enforce his right in a patent. If a product in question physically has or perform all of elements contained in your patent's broadest claim, then it would infringe your patent and you can take legal action against its manufacturer or distributor or retailer. Let's look at a simple case:



Learn More: All Elements Rule

If the accused invention has all elements of the claims of the patent, it falls under the infringement. Since the elements described in the claims are organically combined, if some of the elements of the claims are missing in the accused invention, basically the infringement is not recognized.

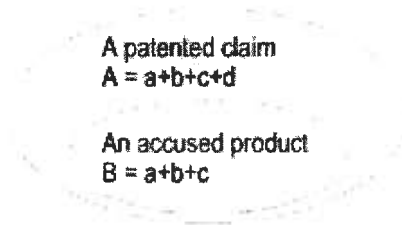
Example

Let's suppose that your patented product is "A" and your competitor's product is "B", and "a", "b", "c" and "d" indicate the elements of a patented claim.

1. Case 1

Product "A" has features covered by a claim having elements "a + b + c + d."

Product "B" has features covered by elements "a + b + c."

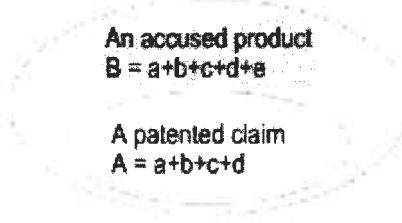


In the above case product "B" does not infringe "A", because "B" does not include element "d" of the claim of the patent covering product "A"

2. Case 2

Product "A" has features covered by a claim having elements "a + b + c + d."

Product "B" has features covered by elements "a + b + c + d + e."



In this case, product "B" would infringe patent covering product "A", because "B" has features that are covered by all the elements of the patent protecting product "A," even though it has an additional element "e."

3. If you come across your competitor's patent

If you come across a new or improved product of your competitor that is protected by a patent, then you may have no option but to deal with it especially if it is relatively easy for your competitor to find out that your product is infringing his patent, the competitor is known to take prompt legal action on discovering infringement, and the competitor has access to a good patent lawyer. Firstly, carefully go through the competitor's patent and the relevant prior art to determine whether your product would actually violate the patent rights of the competitor.

If yes, then examine whether it is possible for your company to invent around such a patent easily and quickly by, for example, eliminating some essential element or replacing an essential element by other elements with a different function. The basic legal test for infringement of a patent is whether your product uses every element of a granted claim in the patent. If you manage to develop a product that does not include at least one of the claimed elements of the competitor's patent, then you have not infringed it. In fact, you may instead have a better product, which may ultimately dominate the marketplace, and, of course, a patentable invention of your own. If you cannot find an element that you can eliminate in a competitor's patent, try to find an element that may be changed to function differently even though it may be the structurally the same or equivalent.

If you cannot design around the patented invention, then examine whether you have some key strength or assets that your competitor would like to have access to, so that you may be able to leverage it to enter into a strategic business partnership or an arm's length licensing arrangement with such a competitor. If you don't even have this option then be prudent and do not risk introducing such a product in the market.

If the patent owner does nothing about the violation of his patent right in the marketplace, competitors will sooner or later attempt to make similar or identical products. In some cases, competitors may benefit from economies of scale, greater market access, or access to cheaper primary resources, and therefore be able to make a similar or identical product at a cheaper price, putting heavy pressure on the innovator of the original product. On occasions, this may erode only profits or drive the original innovator out of business because, usually, the duplicated product may dominate the market and attract customers more than the original one.

More Reference 3-1: Enforcing your patent

The main responsibility for identifying, monitoring and taking action against imitators or infringers of a patent lies with its owner.

The remedies available to a patent owner include:

1. Injunction

A court order requiring an entity to stop doing a certain act. For a company an injunction may mean an order to stop selling its product deemed to be infringing.

2. Damages

Damages are typically based on lost profits or established royalties, but in no event shall be less than a reasonable royalty for the infringers' use of the patented invention.

Learn more: Alternative to Litigation: Arbitration or Mediation

In some countries, litigation has become an increasingly common tool for protection of patent rights, encouraged by such staggering damage awards. However, patent litigation is normally best avoided by companies, big or small. Instead of a lawsuit, if both parties agree, the entire infringement dispute may be settled through negotiations in the form of mediation or arbitration.

An advantage of mediation is that the parties retain control of the

dispute resolution process. As such, it can help to preserve good business relations with another enterprise with which your company may like to collaborate in the future. Arbitration generally has the advantage of being a less formal and shorter procedure than court proceedings, and an arbitral award is more easily enforceable internationally.

More information on arbitration and mediation can be found at:
<http://www.wipo.int/amc/en/center/index.htm>

LEARNING POINT 4: Patent management system

2. Basic elements of a patent management system

(2) Creating a company-wide intellectual property culture; create and implement a trade secret protection program

- b. The key to a successful trade secret protection program are:
- Systematic implementation;
 - Creating proper awareness and providing adequate education or training to all employees about the program; and
 - Key employees must be expressly bound by a duty of maintaining confidentiality.
- b. A trade secret protection program must be periodically audited for its effectiveness, so as to protect all potentially useful commercial or technical information of the company.

(2) Implementing an invention program, invention disclosure program and maintaining an inventory

- b. Invention program
- This program includes procedure that allows the systematic identification

and documentation of new and creative ideas for developing a patent management strategy.

c. Invention disclosure program

A company should have an incentive or reward system to encourage employees to submit their inventive or creative ideas in writing, for which an invention disclosure form may be prescribed.

d. An inventory

Creating and maintaining an inventory is a prerequisite for developing a patent strategy. The major categories of information in this inventory would include:

- Invention disclosures,
- Defensive publications,
- Trade secrets,
- Patent applications,
- Granted patents,
- Patents licensed in or licensed out,
- Disputes and litigation concerning inventorship and patents.

(3) Systematic review of all invention disclosures

To get a valuable patent, every invention must be reviewed systematically by an invention review committee that includes representatives of legal, R&D, manufacturing and marketing departments, apart from the patent agent or attorney.

Keeping the business objectives and financial resources in mind, the committee may decide to keep it a secret, put it in the public domain to prevent others from patenting it, develop the invention further before taking a decision, or give the green light to proceed with the drafting of a patent application to file a provisional or regular patent application.

(4) Making sure that the company, not the employees or contractors, owns inventions and patents.

The fact that you have the invention in your possession or you paid for its development does not mean you own it. Often, problems arise when a company does not take adequate and timely steps to ensure assignment of property rights from its employees or independent contractors that worked on creating or improving an invention.

Employment agreements should require all employees to assign any inventions, improvements, new ideas or concepts developed by an employee. So, before filing a patent application, make sure that the company owns the invention. In case this was not done before filing a patent application, then do so as early as possible.

(5) Monitoring patenting activities of current and potential new competitors

Monitoring the patent activities of competitors has many benefits such as the following:

- b. It may enable you to identify and monitor potential competitors and the likely risk of infringing their patents at an early stage in relation to your company's new or improved product under development.
- c. It may help to determine the strength and direction of technological evolution of your competitors much before they introduce a new or improved product on the market and to steer your own R & D priorities accordingly.
- d. It may show whether a competitor has patent of dubious quality or if there is scope of doing R & D to surround the key patents of the competitors where they are unprotected or insufficiently protected.
- e. It may enable you to identify and monitor other people's patent

applications, which you may wish to challenge in opposition.

(6) Evaluation and valuation of patents

- a. For a company to make the most of its patent or portfolio of patents to be valuable, the following issues need to be considered:
 - It must own or have access to the right patents; so, either the company should itself invent and patent what it needs for making new or improved products or it should have the means to buy or license patents owned by others.
 - It must have big enough markets and also enough revenues, funds or partners to enforce its patent rights.
 - It needs to execute successfully its patent exploitation strategy.

- b. For a patent or portfolio of patents to be considered productive, it must accomplish at least one of three goals of the company:
 - It must be needed to shape or execute the corporate strategy
 - It must help in maintaining or establishing a marketing advantage,
 - It should generate royalty revenue or prevent payment of royalty revenues to others

(7) Monitoring and enforcement program for patents

As the rights granted by a patent include the power to prevent or stop competitors from making products that infringe on the patent, therefore, the company must develop and implement a monitoring program to cover competing products of competitors, and also monitor the activities of ex-employees who work for a competitor or run their own companies.

a. Enforcement program:

A primary objective of a patent enforcement policy and strategy should be to prevent or resolve disputes through private negotiations, that is, without going to court.

Activities aimed at preventing or resolving disputes early must also include:

- Keeping a systematic watch over the relevant activities of current and potential new competitors at the relevant patent offices, at home and abroad, and filing oppositions in appropriate cases during the patent grant process.
- Using mediation and/or arbitration, whenever possible, to resolve patent disputes out of court or to reduce the issues that may have to be taken to court.

(8) A patent licensing program

If on periodically analyzing each patent or portfolio of patents to identify possibilities for licensing patents to others, on mutually agreed terms and conditions, a company finds that it has enough such patents then it must create an in-house licensing program or use the services of outside licensing professionals for doing so.

Many companies with large patenting programs have been successful in creating large revenue streams from licensing. A good example is IBM, which reportedly has earned over a billion dollars every year through its patent licensing activities in the recent past.

(9) Assigning responsibility at a high level or in a suitable committee

To ensure integration of the business strategy of a company with its patent strategy, create an intellectual property committee and, if need be, a separate patent committee that includes senior business and technical employees.



For the senior management to play this important role of ensuring coherence between technology and business development goals of the company, they must be educated about intellectual property risks and avoidance of those risk so that not just patent but holistic intellectual property policies are incorporated into the new or improved product planning process from the very beginning.

The patent committee may include inside or outside patent counsel to provide legal input and guidance for meeting its strategic objectives. In addition, it should have adequate representation of all types of competence in the company, especially, legal, R & D, technical and marketing.

(10) Funds and human resources for running a patent management program

To effectively implement the activities of a company's patent program, adequate funds are needed for a wide variety of purposes, such as, hiring the services of patent agents, patent lawyers, and licensing experts, using a patent watch service, accessing on-line patent databases, subscribing to non-patent literature and publications, buying software for managing the in-house patent database, recruiting qualified personnel and their periodic training.

2. Patent portfolio

One would like to think that one patent would or should be sufficient. But it is often the case that a single patent does not suffice. A single product of a

company may be protected by many patents where a core patent may be surrounded by a number of less important patents or different features of a product may be protected by one or more patents covering each of the features.

QUIZ

Q1. Identify the incorrect statement:

- 1) Inventions are protected and leveraged by the patent system to protect a company's products, to generate revenues and/or protect its R&D investments in the marketplace.
- 2) In order to get useful inventions, you may have to access it from others who are willing to provide it by licensing it to you on mutually acceptable terms and conditions.
- 3) Inventions are made by a flash of genius and involve great scientific discoveries or great technical developments.
- 4) Inventions maybe also created by employees on the shop floor, by people in marketing, sales and design, and not only by highly qualified engineers in multi-disciplinary, high-tech laboratories.

Answer: 3)

Most people seem to think that inventions are made by a flash of genius and involve great scientific discoveries or great technical developments. Although this is occasionally the case, many famous inventions involved no great scientific discovery, or represented only a modest advance in fundamental technology and were made by ordinary people working alone or in a small company. Most inventions are the result of practical analysis of a technical problem. The standard employed to determine patentability is a legal standard and not a technical standard.

Q2. Identify the incorrect statement:

- 1) A patent is granted by a notional office or regional office and has no effect beyond the national or regional boundary of the country or countries concerned.
- 2) A patent confers on its owner the rights to make, use, offer for sale, sell, license and import a claimed invention.
- 3) A patent is valid for a maximum period of 20 years, counting from the filing date of the application or from the date of an earlier related application.

- 4) A patent owner may assign or transfer the patent or conclude licensing contracts.

Answer : 2)

A patent is like a deed of land, which confers the right to prevent others from trespassing on the territory delineated by picket fences. However, unlike a deed to land, a patent gives its owner the right not to occupy the land but to trespass on the land in the picket fence. That is, a patent shall confer on its owner the exclusive rights to prevent others from making, using, offering, for sell, selling or importing a defined invention. Therefore, a patent owner can exercise the freedom to operate his patented invention as long as it does not infringe other patents.

Q3. Identify the incorrect statement

- 1) A patent application must provide detailed technical information about the features of the claimed invention;
- 2) An applicant must not disclose in a patent application how the invention can be made or carried out;
- 3) A patent application must indicate how the invention may be applied in industry or commerce
- 4) By reading a patent application a person with ordinary skills in that field of technology must be able to practice, use or reproduce the invention without having to do undue experimentation.

Answer: 2)

A key reason for the grant of a patent is as an incentive for the disclosure of new technical knowledge. Therefore, the details of an invention are published in the official gazette or journal either 18 months after the date of filing the patent application and/or soon after the patent is granted. Thus wide dissemination of the new technical knowledge is ensured spurring further technical advancement

MODULE

04

Trade Secrets

MODULE 04. Trade Secrets

OUTLINE

LEARNING POINT 1: Basics of trade secrets

1. Definition of a trade secret
2. Type of information that could be a trade secret

LEARNING POINT 2: Trade secret management program

2. The 10 steps to build up a trade secret management program

LEARNING POINT 3: Misappropriation of trade secrets

2. Definition
3. How trade secret gets stolen
4. Protection of trade secrets

LEARNING POINT 4: Violation of trade secrets

2. How to establish violation of trade secrets
3. Remedies

LEARNING POINT 5: A trade secret audit

2. How to conduct a trade secret audit

INTRODUCTION

In a highly competitive business environment, responding to the new and evolving needs and wants of current and potential customers requires the creation of new or improved goods and services. For an existing or new business to survive, grow and thrive in this environment, it must be able to create itself or get the needed useful information to create and provide the new or improved goods or services in the marketplace. Such useful information is a “trade secret.” Often, competitors get access to such information rather easily, for example, by winning over or merely hiring away your key employees who created or have access to such useful, confidential information that gives your business a competitive edge. To prevent the erosion or loss of its competitive edge provided by such information, a successful company has to safeguard its proprietary or confidential information.

LEARNING OBJECTIVES

2. You understand the nature of trade secrets, the reasons for protecting them and the practical challenges in identifying and protecting them.
3. You know how to develop an effective trade secret management program.
4. You understand what is meant by misappropriation of a trade secret and how to prevent such misappropriation.
5. You know how to take various types of suitable actions to prevent violation of trade secrets.
6. You understand why and how to conduct a trade secret audit.

LEARNING POINT 1: Basics of trade secrets

2. Definition of trade secret

A trade secret is defined as any information that is:

- (2) not generally known to the relevant business circles or to the public;
- (3) confers some sort of economic benefit on its owner. This benefit must derive specifically from the fact that it is not generally known, and not just from the value of the information itself; and
- (4) the subject of reasonable efforts to maintain its secrecy.

A trade secret continues for as long as the information is maintained as a trade secret.

Anything that is easily and completely disclosed by the mere inspection of a product put on the market cannot be a trade secret.

Learn more: The reason for protecting trade secrets

- 2. Trade secret law seeks to maintain and promote standards of commercial ethics and fair dealing.
- 3. A key objective of trade secret law is to provide an incentive for businesses to innovate by safeguarding the substantial time and capital invested to develop competitively advantageous innovations, both technical and commercial, and especially those that are not patentable or do not merit the cost of patenting.
- 4. If not protected by trade secret law, then competitors could use these innovations without having to shoulder the burden of costs or risks faced in developing the innovations.

More Reference 1-1: The formula of Coca-Cola

Perhaps the "best-kept trade secrets in the world".
The procedures for protecting the formula for Coca-Cola (a.k.a. "Merchandise

7X"), according to an affidavit given by a senior vice-president and general counsel for Coca-Cola in a court case, are as follows:

The written version of the secret formula is kept in a security vault at the Trust Company Bank in Atlanta, and that vault can only be opened by a resolution from the Company's Board of Directors. It is the Company's policy that only two persons in the Company shall know the formula at any one time, and that only those persons may oversee the actual preparation of Merchandise 7X.

The Company refuses to allow the identity of those persons to be disclosed or to allow those persons to fly on the same airplane at the same time. The same precautions are taken regarding the secret formulae of the company's other cola drinks- diet Coke, caffeine-free diet Coke, TAB, caffeine-free TAB and caffeine-free Coca-Cola.

2. Type of information that could be a trade secret

Virtually any type of information may qualify as a trade secret

- (2) A trade secret may consist of information relating to a formula, pattern, device or other compilation of information that is used for a considerable period of time in a business.
- (3) Often, a trade secret is technical information used in the manufacturing process for production of goods.
- (4) A trade secret may relate to marketing, export or sales strategies, or a method of bookkeeping or other business management routines or procedures, including software used for various business purposes.

Other examples of potential trade secrets may include technical, scientific or financial information, such as business plans, business processes, list of key customers, list of reliable or special suppliers, product specifications, product characteristics, purchase prices of key raw materials, test data, technical drawing or sketches, engineering specifications, proprietary recipes, formulas,

content of laboratory note books, salary structure of a company, product pricing and advertising rates, source code, object code, databases and electronic data compilations, agreements containing details of marketing tie-ups, promotional or marketing material under development.

More Reference 1-2: Challenges and limitations of trade secret protection

A trade secret cannot be protected against being discovered by fair and honest means, such as by independent invention or reverse engineering.

If a person not having legal access to the trade secret information, deciphers the information without taking recourse to any illegal means, such as by reverse engineering or as by independent invention, then such a person cannot be stopped from using the information so discovered. Under these types of circumstances, the owner of a trade secret cannot take any legal action against the other person.

Advantages of trade secret protection

1. Trade secrets involve no registration costs;
2. Trade secret protection does not require disclosure or registration;
3. Trade secret protection is not limited in time;
4. Trade secrets have immediate effect.

In the case of inventions that may be patentable the disadvantages of protecting such inventions as trade secrets.

2. The secret embodied in an innovative product may be discovered through "reverse engineering" and be legitimately used.
3. Trade secret protection only protects you against improper acquisition, use or disclosure of the confidential information.
4. A trade secret is difficult to enforce, as the level of protection is considerably weaker than for patents.
5. Another person may patent someone's trade secret if he has developed the same invention by legitimate means.

LEARNING POINT 2: Trade secret management program

2. The 10 steps to build up a trade secret management program

(2) Put in place a system for identifying trade secrets

Identifying and categorizing the trade secrets is a prerequisite for starting a trade secret protection program. The steps taken to protect your trade secrets should be dictated by the nature of the secrets themselves.

a. The basic questions to ask

- What information would hurt my business if my competitors get it?
- And how much will it hurt?

b. A related question to ask

- Do you have staff specifically assigned to record keeping, data security, or for preservation of trade secrets?

Make a written list of the information to be protected and organize it into the different types of information, depending on its value to the business and the type of protection measures that would be needed to protect it.

(2) Develop an information security policy that includes a trade secret protection policy

The information security policy encompasses systems and procedures designed to protect the information assets from disclosure to any person or entity not authorized to have access to that information, especially information that is considered sensitive, proprietary, confidential, or classified (as in national defense).

- b. It is important to have a written information security or trade secret protection policy. A written policy provides clarity on all aspects that

need to be addressed.

- It should explain the why and how of doing so.
- It should prescribe how to reveal or share such information in-house or with outsiders.
- It should articulate and demonstrate the commitment of the business to protect its trade secrets as this would eventually play an important role in any unavoidable litigation.

c. Information security can be implemented at various levels such as the following:

- Physical controls
- Administrative controls
- Technical controls.

(3) Educate all employees on issues related to information security

c. Always hire an employee on the basis of his competence knowledge and skills and not because of his access to trade secrets of a former employer.

d. All employees should acknowledge that they have understood the policy and that they agree to abide by it. Periodically, reiterate the policy.

e. Avoid hiring a person bound by a non-compete agreement. If unavoidable then do so only after taking advice from an independent and competent lawyer.

f. Indemnifying a new employee, who is bound by a non-compete agreement to a previous employer, should be avoided, as doing so raises suspicion of wrong doing and may result in a financial obligation if wrong doing is proved in a court case.

- g. Remind your employees not to disclose trade secrets to unauthorized individuals or entities and to follow the security procedures; do so by way of notices, memos, network e-mails, newsletters, etc.
- h. Hiring away more than one employee from a competitor would raise suspicion of wrong doing, and, therefore, it should be avoided as far as possible.

(4) Importance of exercising care in hiring an employee of a competitor

- c. Educate and train employees on information security policy.
- d. Transform every employee into a potential security officer.
- e. Every employee must contribute to create a secure environment.
- f. Prevent inadvertent disclosure that may take place due to ignorance.
- g. The employees should be trained to recognize and properly protect trade secrets.

<Departing employees>

Make departing employees aware of their obligations towards former employer. Do so by conducting exit interviews that should also focus on issues related to confidentiality, trade secrets, etc.

If necessary or desired, they should be made to sign a new or updated confidentiality agreement. You may write a letter to new employer informing him about the relevant aspects of your trade secret concerns so that the departing employee is not put by the new employer on projects or activities where inevitable disclosure of your trade secrets would occur or is most likely to happen.

(5) Include reasonable restrictions in writing, in all contracts

Signing a good confidentiality or non-disclosure agreements with employees,

suppliers, contractors, business associates is of immense value in keeping information away from competitors.

a. Non-analysis clauses

Include non-analysis clauses in agreements for licensing trade secrets so that the other party agrees not to analyze or have analyzed any material or sample supplied under the agreement to determine its composition, qualities, characteristics, or specifications, unless authorized in writing by a duly authorized representative of your business.

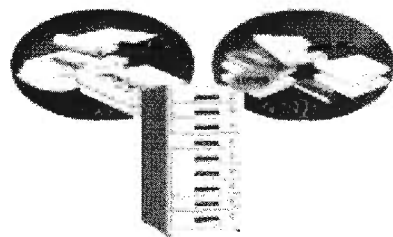
b. No-raiding, non-recruitment or non-solicitation clause

A no-raiding, non-recruitment or non-solicitation clause in an employment agreement prohibits a departing employee from soliciting co-workers to leave with him to join another business or set up a new rival business.

(6) Restrict access to paper records

To prevent unauthorized access to records classified as confidential, sensitive, or secret, limit access to only those employees who are duly approved, or cleared, to see them on a need to know basis.

This may be done more easily by proper labeling of records (e.g., with a stamp such as confidential or secret) or using special colored folders (e.g., red or orange), and by keeping such marked records physically isolated or segregated in a secure area or in locked filing cabinets.



Depending on the size and nature of the trade secret, the location of the separated information can vary from a locked file cabinet, to a security

patrolled warehouse or storage facility. There has to be proper access control through appropriate authorization and accountability and tracking system for employees provided access to classified information.

(7) Mark documents

There are various types of useful ways for marking confidential or trade secret information. Look at the following examples:

- c. MAKE NO COPIES
- d. THIRD PARTY CONFIDENTIAL
- e. DISTRIBUTION LIMITED TO _____
- f. COVERED BY A NON-ANALYSIS AGREEMENT

The CRITICAL, MAXIMUM, MEDIUM, and MINIMUM labels are examples of information classifications

In general, the labels should provide brief but clear direction to the user on how to handle the information.

(8) Office management and keeping confidentiality

- a. Mobile or cellular phones discussing sensitive topics over a cellular phone is a dangerous practice. Confidential information may be “lost” if there is unrestricted use of mobile or cellular telephones.
- b. Fax machines
Often, the fax machine is located in a common area with unrestricted access and it is typically unattended. The second problem with fax transmissions is that they utilize phone lines, which can be tapped quite easily.

c. Photocopying

It is not unusual for an employee to make copies of a secret or confidential document, pick up the copies and walk away, leaving the original in the copier for the next user to find. Extra care should be taken to remember to retrieve those original secret or confidential records when the copying is finished.

d. Shredding

A better method for disposition of all paper records, of course, is shredding them. Shredding is a major element in most information security programs. With a wide variety of machines on the market, businesses may implement shredding in several ways.

e. Telephones

Callers posing as researchers, industry analysts, consultants, or students ask for information about the organization and its employees—and many times get it.

f. Internal literature

Newsletters, magazines, and other in-house publications often contain information useful to snoops, including new product announcements, results of market testing, and names of employees in sensitive areas (who are potential contacts).

g. Waste bins

It is not safe to put them into a nearby office waste paper or trash bin, as anyone with access to the trash might make use of those records for gathering competitive intelligence.

h. The compulsive talker and loose talk

Employees are deluding themselves if they think their lunchtime or coffee break conversations and any discussion of company business on

the metro, subway, bus stop, train station, or a restaurant is wholly private. It is not at all unusual for people nearby to hear clearly these conversations.

(9) Maintain computer secrecy

For most computer systems at least two security measures are built into them:

- a. Use of passwords for a user to access the system
- b. Automated audit trails to enable system security personnel to trace any additions or changes back to whoever initiated them, and to indicate where and when the change was carried out.

<Access Control and Security Labels>

Access control is a means of enforcing authorizations. There are a variety of access control methods that are based on different types of policies and rely on different security mechanisms.

- c. Rule based access control is based on policies that can be algorithmically expressed.
- d. Identity based access control is based on a policy which applies explicitly to an individual person or host entity, or to a defined group of such entities. Once identity has been authenticated, if the identity is verified to be on the access list, then access is granted.

(10) Guarding secrets that are shared in partnerships

- a. While employees can be the single biggest threat to secrecy, it is also important to guard secrets in joint ventures, with consultants and even with customers.

- b. For many software companies, the most dangerous exposure is the sale of a system because the software is then susceptible to reverse engineering. In software and many other high-tech industries, licensing of your company's product is a secure way to guard against loss.

More Reference 2-1: Locked waste paper bins

1. Advantages of locked waste paper bins
 - (1) Paper is secure from point of generation through point of destruction.
 - (2) It can be visually and systematically demonstrated to customers/clients that an infrastructure exists to protect information.
 - (3) Avoids the need to shred at point of generation.
2. Disadvantages of locked waste paper bins
 - (1) Additional cost of purchasing locked bins.
 - (2) Additional labor to collect paper from locked bins.
 - (3) Additional space may be required to stage locked bins during collection.
 - (4) Finding and keeping track of keys for bins; need to decide if all bins should be keyed alike, or have multiple keys or multiple locks.
 - (5) May reduce staff compliance if use of the locked bins is not easy or they are not as accessible as unlocked bins.

LEARNING POINT 3: Misappropriation of trade secrets

3. Definition

- (3) Unfair acquisition that is, acquiring a trade secret by theft, fraud, coercion, or other unlawful or dishonest acts.

More Reference 2-2: Basic rules in using computer passwords

3. Never share a password with anyone.
Even if shared with a trusted person, the possibility of its falling into hostile hands exists.
4. Make a password at least six characters long.
Password-guessing computer programs can guess three-character passwords in as little as fifteen minutes, while a six-character password will normally take two years to "crack."
5. Do not create passwords that others can guess. (e.g., family names, birthdays).
6. Change passwords regularly (e.g., once per month).
This practice reduces the chance of someone guessing a password.
7. Keeping a written copy of the password in the office.
If you do that, especially near the computer (all-too-common a practice) the purpose of the password is defeated.
8. Treat dial-in phone numbers as carefully as passwords.
9. Never leave their computer terminal unattended while logged on.
This practice eliminates the need for an intruder's guessing a password and simply allows anyone quick access to data stored in the computer.

- (4) Acquiring a trade secret with knowledge of its prior unlawful acquisition, or acquiring such trade secret without actual knowledge of its unfair acquisition but being grossly negligent in failing to know of the earlier unfair acquisition and, in either case, using or disclosing a trade secret so acquired.
- (5) Although innocently acquiring a trade secret, using it or disclosing it after learning of its earlier unfair acquisition by another person.
- (6) Using or disclosing the trade secret in breach of a contractual obligation to maintain the trade secret.

- a. Acquiring a trade secret that was disclosed in the circumstances set forth in (4) above, either knowingly or with gross negligence in failing to know of the breach of the contractual obligation, and using or disclosing such trade secret
- b. Subsequent to the innocent acquisition of a trade secret that had been disclosed under the circumstance set forth in (4) above, using or disclosing it after learning of the earlier breach of contractual obligation or being grossly negligent in failing to learn of such earlier breach.

2. How trade secrets get stolen

(1) Industrial espionage

Intense competition in domestic and export markets has also lead to an alarming increase in theft by outsiders, known as industrial espionage. Such activities are on the rise due to increasing global competition, shorter product cycles, thinning profit margins, and declining employee loyalty.

c. External threats

External threats include corporate spying with professional criminals targeting specific technology, initiating network attacks (hacks), laptop computer thefts:

- accessing source code, product designs, marketing plans, customer lists
- approaching employees to reveal company information etc.



Businesses strive to protect their trade secrets by enacting corporate security measures and confidentiality clauses in employment, technology licensing, distributorship and joint venture agreement.

b. Internal theft

Internal theft by disgruntled workers or former employees is also intentional. Some of these people allow themselves to be exploited by competitive intelligence operatives, either for money or merely for spite.



Example

A fired or retrenched employee might go directly to a competitor and offer, for seeking revenge or for a fee, to disclose your trade secrets, marketing strategies, or new product plans—often despite signed nondisclosure or confidentiality agreements.

Sometimes, competitive intelligence operatives may tap phone lines, or regularly sift through a company's garbage, break into computer systems. They may include seemingly innocent persons such as research analysts, business analysts, information specialists, and potential employees or customers, who gain employees' trust for obtaining proprietary information by inducements, gifts or blackmail.

3. Protection of trade secrets

Generally, most countries do not have a specific law for trade secrets

The owner of trade secrets has to rely on relevant provisions of the national law against unfair competition and/or by court action under the law of torts and by appropriate clauses or provisions in employment agreements and other types of business agreements in accordance with the contract law of the country.

(3) Unfair competition law / Principles of tort

When misappropriation is done by competitors who have no contractual relationship or indulge in an act of theft, espionage, or of subversion by employees. The law of tort is judge-made law in 'common law' countries.

(4) Contract law

When the agreement between the parties seeks to protect the trade secret by using a non-disclosure clause or confidentiality clause, through an anti-reverse engineering clause, or where an implied confidential relationship exists, such as between an attorney and his client, or an employer and his employee, etc.

(5) Criminal law

When an employee steals trade secrets from a company or someone does espionage or is involved in acts that may be considered as invasion of privacy, etc., or circumvention of technical protection measures of *IT / non-IT* systems.

More Reference 3-1: Dealing with memorized trade secrets

The main difficulty is in separating a protectable trade secret from non-protectable knowledge and skills of former employee that are retained in the person's memory.

The courts of some countries have dealt with this issue in the following ways:

1. whether an employer can stop a former employee from using trade secrets retained in memory, i.e., "misappropriation by memory"
2. whether an employer can use trade secret law to enjoin a former employee from working in a job that would inevitably result in the use of trade secrets, i.e. "inevitable disclosure."

In fact, both protect against the use of a memorized trade secret, but they differ in the type of injunctive relief available. The doctrine of inevitable disclosure should be limited to the narrow factual situation where it is inevitable that a former employee will use a specific trade secret in the course of performing an identified job responsibility that is inherent in the person's new job.

LEARNING POINT 4: Violation of trade secrets

3. How to establish violation of trade secrets

Main issues are:

- (3) Was the information indeed secret?
- (4) Were reasonable steps taken to maintain the secrecy?

To establish violation of trade secret rights, the owner of a trade secret must be able to show the following:

- (1) Infringement by or competitive advantage gained by the person/company which has misappropriated the trade secret.
- (2) The owner had taken all reasonable steps to maintain it as a secret.
- (3) There is misuse as the information obtained has been used or disclosed in violation of the honest commercial practices.

2. The remedie

- (1) A court order restraining the person from further benefiting from or misusing the trade secret.
- (2) A court order for monetary compensation in the form of damages, based on the actual loss caused as a result of the misuse of trade secret. (For example, lost profits or unjust enrichment)
- (3) Seizure order by the court, based on a civil action, which may include a search of the defendant's premises in order to obtain evidence to establish the theft of trade secrets at trial.

- (4) Precautionary impoundment of articles that include misused trade secrets, or the products resulting from its use or misuse.
- (5) A court may order the destruction of the products made by the infringing act, and/or destruction of the equipment used to carry out the infringing act.
- (6) Some countries permit the imposition of punitive damages for willful encouragement of trade secret theft.

LEARNING POINT 5: A trade secret audit

3. How to conduct a trade secret audit

Basic steps for conducting a trade secret audit are as follows.

(3) Identify significant trade secrets

Consult with research and development, manufacturing, MIS, sales and marketing and human resources; compare your company's advantages vis-à-vis manufacturing processes, raw material ingredients, information management, contacts with customers, etc., as compared to competitors.

(4) Verify the company's title to trade secrets

Contact legal and human resources to determine if assignments from employees, consultants or other predecessors in interest are complete.

(5) Verify that confidentiality procedures are followed

Contact security, human resources and departments that maintain the trade secrets.

(6) Verify that employees, consultants, vendors, customers and other third parties do not disclose trade secrets of third party

Contact human resources to determine if new employees and consultants agree in writing not to disclosure confidential information from former employers; contact legal, purchasing, sales and marketing, research and development, MIS and manufacturing regarding other third party agreements.

QUIZ

Q 1. Identify the incorrect statement:

- 1) A trade secret generally referred to as "know-how" is any information, design, process, composition or technical formula that is not known generally and that affords its owners a competitive advantage.
- 2) Trade secret owners should take the reasonable precaution to keep the information confidential to acquire and maintain trade secret rights.
- 3) A trade secret does not need the government registration process and has the possibility of perpetual protection if kept secret.
- 4) Trade secrets may be legally safeguarded against accidental leakage.

Answer: 4)

Trade secrets may be legally safeguarded against misappropriation but not against wrongfulness or accidental leakage. Any third party who gains accidental knowledge of the secret information are under no obligation to the trade secret owner. No liability may arise in the absence of an obligation.

Q 2. Identify the incorrect statement about a trade secret:

- 1) Unlike other IP rights, trade secret owners may seek liability only when the appropriator acquires, reveals or uses the secret in a wrongful manner.
- 2) Companies need to conduct a trade secret audit to realize how much of their confidential business information may qualify as a protectable trade secret, and then should establish a trade secret program.
- 3) A commonly used way of protecting trade secrets is through non-disclosure and non-solicitation clauses in employment and other contracts.
- 4) Trade secrets relate mostly to aspects of business operations such as pricing and marketing techniques or list of customers.

Answer : 4)

Trade secrets relate not only to business and financial aspects but also to technological aspects of a business, especially those which cannot be protected by patents, or are chose not be patented even though they are patentable, or are associated with one or more patents, as everything known and useful in relation to

a patented technology is not required to be revealed in the relevant patent document. Only that is much required to be revealed in a patent document as would suffice for the grant of a patent. Technical know-how may be protectable as a trade secret.

Q 3. Identify the incorrect statement about a trade secret:

- 1) Both trade secrets and patents are forms of intellectual property that can be used to protect innovations.
- 2) One of the differences between patent protection and trade secret protection is that patent protection requires the protected information become available to the public (through publication of the patent application and/or patent), whereas trade secret protection requires the protected information be kept secret. Therefore, if you file a patent application, you lose all of your trade secret rights in the invention.
- 3) If a product has a short life cycle, trade secret protection may be preferable to patent protection.
- 4) Patents and copyright grant exclusive rights. In contrast, there is no guaranteed monopoly for trade secrets.

Answer: 2)

If you file a patent application, the information disclosed in your patent application will be made public at the time of the publication of the patent application/patent. However, that does not necessarily result in the loss of all of your trade secret rights related to a particular invention. Certain information with respect to the invention may still be kept as a trade secret. In your patent application, the description of your invention must be sufficiently complete so that someone skilled in the relevant technology area could make and use the invention based on the written description. However, subsequent to filing, improvements to the invention may be developed when the invention is actually constructed and tested. Also, engineering difficulties may be encountered and solved during the process of converting the invention into a commercially viable product. Such technological know-how developed after filing the patent application does not have to be disclosed in the patent. It may be kept as trade secret.

MODULE
05

Copyright and Related Rights

MODULE 05. Copyright and Related Rights

OUTLINE

LEARNING POINT 1: Basics of copyright

3. Definition of copyright
4. Requirements for copyright protection

LEARNING POINT 2: Copyright and related rights

3. Scope of copyright protection
 - (1) Works protected by copyright
 - (2) The things copyright does not protect
 - (3) Economic rights & Moral rights
4. Basics of related rights
 - (1) Definition of related rights
 - (2) Rights that related rights provide
5. Period of protection

LEARNING POINT 3: Ownership of copyright

3. Meaning of ownership of copyright
4. In case of commissioned works
5. In case of works created by an employee
6. In case of works created by several authors

LEARNING POINT 4: Using works owned by others

3. When do you need permission

When you don't need permission

4. The process of obtaining authorization

5. How to reduce the risk of infringement

INTRODUCTION

Copyright protects the original literary and artistic creations of all types of authors, such as writers, composers, software developers, web designers and many other creators. In the past, copyright law was used to protect creative expressions of various kinds on papers or printer media, whereas, in the current internet era, copyright is relied upon by all types of digital content producers, distributors and retailers.

LEARNING OBJECTIVES

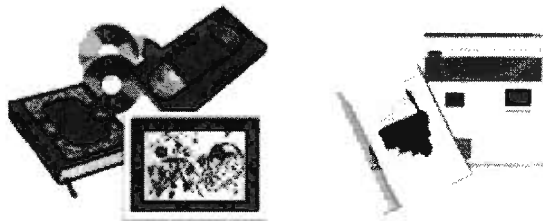
3. You understand the basics of copyright and related rights.
4. You understand the importance of copyright ownership in works and how to use such works in your business.
5. You know the best way to use copyrighted works to support your business strategies.
6. You know how to avoid infringement of the copyright of others and in the case of infringement, how to minimize its potential damage.

LEARNING POINT 1: Basics of copyright

3. Definition of copyright

Copyright law of a country grants authors, composers, software writers, website designers, and other creators' legal protection for their literary and artistic creations, which are usually referred to as "works."

Copyright protects a wide variety of original and/or creative expressions, such as novels, poetry, music, paintings, photographs, sculptures, architecture, films, computer programs, video games, original databases, etc. In most countries, copyright also protects sketches, drawings or designs of manufactured products.



Copyright law gives the author of a work a bundle of exclusive rights over his work for a limited period of time. These rights enable him to control the use of his work in a number of ways and to receive remuneration. Copyright law also provides "moral rights" which protect an author's reputation and integrity.

A work must be ORIGINAL

4. Requirements for copyright protection

To qualify for copyright protection, a work must be original. In copyright law, originality relates to expression of thought and not to the underlying idea or thought. However, the exact meaning of originality under the copyright law differs from country to country. In general terms, originality refers to the fact that the work was independently created and it was not copied from

somewhere else. Copyright protection extends only to original contributions to a work and does not extend to any elements of a work that were borrowed from others. For example, if a new video game has used copyright material of others and/or has material which is in the 'public domain', then copyright protection would extend only to any original compilation of this material, and not to the borrowed material.

Even so, works enjoy copyright protection irrespective of their creative elements, quality or value (a drawing of a three-year-old child is also a work with full copyright protection), and do not need to have any literary or artistic merit (copyright also applies to purely technical guides, instructions manuals or engineering drawings).

Some countries require that the work be fixed in some material form. Fixation may mean, for example, that the work is written on paper, stored on a disk, painted on canvas or recorded on tape. In such countries, choreographic works, improvisational speeches or live performances that have not been notated or recorded, are not protected until recorded or otherwise fixed.

More Reference 1-1: Copyright Protection Abroad

Most countries are members of one or more international treaties to ensure, amongst other things, that a copyright work created in one country is automatically protected in all countries that are members of such international treaties.

<Berne Convention>

The most important international treaty on copyright is the Berne Convention for protection of literary and artistic works. If you are a national or a resident of a country party to the Berne Convention, or if you have published your work in one of the member countries, your work will automatically enjoy the level of copyright protection granted in the Berne Convention in all other countries that are party to this Convention. In addition, your work will be protected in the other member countries in the same way that the other country protects the works of its own nationals.

However, bear in mind that copyright protection remains territorial in nature. Your work will only enjoy copyright protection if it meets the legal requirements of the copyright law of the country where you seek protection. So you have a separate copyright protection system in each country, which may be based on one or more laws.

More Reference 1-2: Copyright Notice


In most countries, a copyright notice is not required for protection. Nevertheless, it is strongly advisable to place a copyright notice, because it reminds people that the work is protected and identifies the copyright owner; such identification helps all those who may wish to obtain your prior permission to use your copyright protected work(s). Placing a copyright notice on your work is a very cost-effective safeguard. It requires no significant extra expense, but may end up saving costs by deterring others from copying your work.


There is no formal procedure to put the notice on your work, and it can be written, typed, stamped or painted.

A copyright notice generally consists of:

1. the word "copyright", "copr." or the copyright symbol "©";
2. the year in which the work was first published; and
3. the name of the copyright owner.

Example:

 © WIPO 1998-2005 For a work that is constantly updated, such as material on a website, it is possible to include the years from the time of first publication to the present.

 For sound recordings, the letter "P" (for phonogram), in a circle or in brackets, is used. The Phonograms Convention allows a member country to require that symbol and the year of first publication appear on copies of phonograms (for example, on CDs or audio tapes) in order to be protected in that country.

All Rights Reserved. If you significantly modify a work, it is advisable to update its copyright notice. It is also advisable to supplement the notice with the warning "All Rights Reserved" or a listing of which acts may not be performed without permission. "All Rights Reserved" means that the rights contained in the product bought are still protected, not the contrary.

More Reference 1-3: Other legal means to protect original work

Copyright is not the only means available to protect original creations which have economic value for your company:

3. **Patent law** protects inventions if they fulfill specified legal requirements. While patents give your company a monopoly over the technical implementation of an idea or concept underlying the invention, copyright only protects the literary or artistic (and not functional) expression of an idea.
4. **Trademark law** may protect words, phrases, slogans, logos or other symbols that your company uses to identify its goods or services. Trademark law is often used in conjunction with copyright law to protect advertising material from being copied. The form, design or packaging of a given product may also be considered to be a distinctive feature of the product in question and may be protectable as a three dimensional trademark.
5. **Industrial Design:** The aesthetic aspects or outward appearance of your products can be protected as an industrial design. Thus the shape of a lamp; the pattern, lines and colors of a textile; the configuration of a furniture; the novel shape of a packaging, etc. may be registered as industrial designs, provided the legal requirements are fulfilled.
6. **Trade Secret:** Valuable confidential business information, such as technical drawings, technical manuals, commercial or financial information, may be protected both as a trade secret and under copyright law. Any confidential business information which provides your enterprise with a competitive advantage may be protected by contract or by trade secret law. Such information may include a sales method, a distribution method, consumer profiles, advertising strategies, lists of key suppliers and clients, details of manufacturing processes, a marketing plan, etc. However, trade secrets are only protected if your company has taken "reasonable steps" to keep the information confidential.

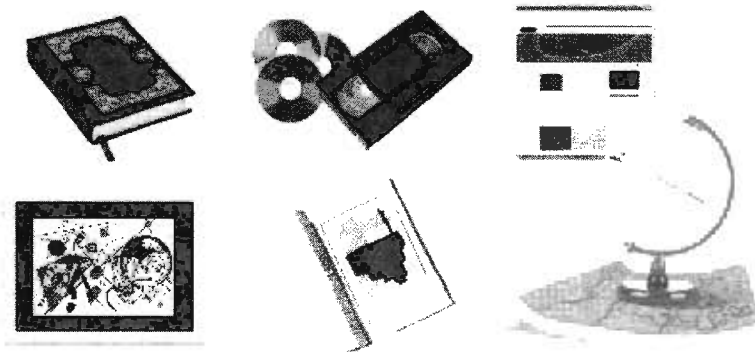
7. Unfair Competition: Many countries have unfair competition laws that allow you to act against unfair business behavior of competitors. On this basis, actions may be brought forward against unfair and misleading advertising and promotional methods. Moreover, protection under unfair competition law may often grant complementary protection against copying of products, including software.

LEARNING POINT 2: Copyright and related rights

3. Scope of copyright protection

(1) Works protected by copyright

Copyright law protects works. Almost all national laws provide for protection of the following types of works:



- a. Literary works (such as books, written speeches, magazines, newsletters, trade journals, training materials, technical papers, instructions manuals, catalogs);
- b. Musical works (such as songs, operas, musicals);
- c. Dramatic works (such as dance, plays, mime);

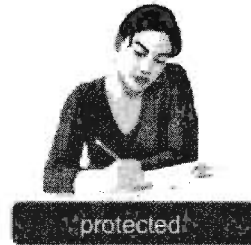
- d. Artistic works (such as cartoons, paintings, sculptures, architectural works, blueprints, computer and laser artwork);
- e. Photographic works (such as photos, gravures);
- f. Computer programs, software, and original databases;
- g. Maps, globes, charts, diagrams and technical drawings;
- h. Advertisements, commercial prints and labels;
- i. Motion pictures (such as films, documentaries, television advertisements);
- j. Multimedia products (works that combine text with visual images, sound and computer programs, such as video games); and
- k. Works of applied art (such as artistic jewelry, wallpaper, carpets).

Copyright usually protects not only works in printed form but also in electronic or digital form. Works are protected irrespective of the fact that they are made available on computer diskettes, hard drives, CD-ROMs, VCDs, DVDs, or whether they are transmitted by radio stations, television stations or downloaded via the Internet.

(2) The things copyright does not protect

Copyright does not apply to:

- a. **Ideas.** Copyright law only protects the way ideas are expressed in a particular creation, but does not protect the underlying idea, procedure, method of operation, mathematical concept or system involved. Protection for such items may be possible either under the patent law or as trade secrets, if the relevant conditions are fulfilled.



Example

Your company has copyright over a book that describes a system for beer processing. The copyright in the book will allow you to prevent others from copying the text and illustrations of the book, but it will not give you any rights to prevent competitors from using the machinery, processes, and merchandising methods described in the book.

- b. **Facts.** Copyright does not protect facts - whether scientific, historical, biographical or news of the day - but only the manner in which such facts are expressed, selected or arranged.



Very windy at first but winds slowly easing this evening or tonight. Cold. Heavy or thundery showers with clear spells. Ground frost in a few sheltered areas overnight.

Example

A biography consists mainly of facts about a person's life. The author may have spent considerable time and effort discovering things that were previously unknown. Still, others are free to use such facts as long as they do not copy the particular manner in which the facts are expressed.

News reports are based on facts which by themselves are not protected

by copyright. Nevertheless, there will be copyright in the way those facts are expressed by a particular journalist and additional copyright in the total compilation of the newspaper and the typographical lay-out. (Note, however, that many copyright legislations contain certain exemptions and limitations on the protection offered to news reports.)

- c. **Useful articles.** In some countries, copyright protection is not available to useful articles, such as bathroom sinks, clothing or computer monitors (however, the design of a useful article may be protected as an industrial design). Nevertheless, copyright protection will still apply to such useful articles to the extent that the object contains pictorial, graphic or sculptural features that can be "identified separately from the utilitarian aspects" of the article.



Example

A plain white T-shirt would not enjoy copyright protection. However, it does not mean that if you place a copyright protected artwork on the T-shirt, you will then lose protection of the artwork because it has become part of a useful article. While the T-shirt does not enjoy copyright protection, the artwork still does, no matter onto what product it is applied.

- d. **Names, titles, slogans and other short phrases.** Single words, names, titles, slogans, headlines and other short phrases are generally excluded from copyright protection. But some countries allow protection if they are highly creative. This means that the name of a product or an advertising slogan you use for your business will usually not be

protected by copyright (but they may be protectible under trademark or unfair competition laws). Logos, on the contrary, may be protected under copyright as artistic works (as well as by trademark law, if the requirements for such protection are fulfilled).

- e. **Official government works.** Official government works such as copies of statutes or judicial opinions also have no copyright protection in some countries.

(3) Economic rights & Moral rights

Copyright provides two sets of rights: economic rights and moral rights. The economic rights protect the author's economic interests and allow the author to earn a profit by direct or indirect exploitation of a work. The moral rights protect the creator's creative integrity and reputation as expressed through a work.

a. Economic rights

Economic rights give the owner of copyright the exclusive rights to authorize or prohibit certain uses of a work. The scope of these rights, and the limitations and exceptions, differ, depending on the type of work concerned, and they also vary from country to country. Generally, the economic rights include the exclusive rights to:

- **Make reproductions or copies of the work in various forms.** For example, copying a CD, photocopying a book, downloading a computer program, scanning a text, printing a cartoon character on a T-shirt, or incorporating a portion of a song into a new song.
- **Distribute the work to the public.** Copyright allows its owner to prohibit others from selling, leasing, licensing, renting or lending unauthorized copies of the work. However, in many countries, the right of distribution is limited by the "first sale" or "exhaustion" doctrine, which provides that once you have authorized the first sale or distribution of a particular copy or phonorecord, you have no say

over how that copy or phonorecord is further distributed in the territory of the relevant country(ies). In other words, a copyright owner can control nearly every detail of the "first sale" of the works, including timing, price and conditions. But, once sold, the purchaser can then resell the copy or phonorecord, lend it to a library, or give it away, etc. However, the purchaser cannot make copies or prepare derivative works based on it.

- **Rent or lend copies of the work.** This right generally applies only to certain types of works, such as cinematographic works, musical works, or computer programs. Some countries do not recognize rental or lending rights, but, instead, grant the copyright owner the right to receive remuneration from such rental or lending of a copy of the work.
- **Make translations or adaptations of the work.** Such works are called "derivative works." For example, translating an English instruction manual into other languages, adapting a novel to make a movie, rewriting a computer program in a different computer language, making music arrangements, or making a toy based on a cartoon figure. If sufficiently original, derivative works are themselves protected by a separate copyright.
- **Communicate the work to the public.** This includes communication by means of public performance, recitation, display, broadcasting or communication by radio, cable, satellite or Internet. For instance, 'showing' photographs on a website, or making broadcasts available through a public television set in a bar.
- **Perform, show or play the work in public.** For example, performing plays and music, playing sound recordings, showing films or videos in public, exhibiting a painting in a gallery, delivering lectures in public, and enabling a broadcast to be seen or heard in public.
- **Receive a percentage of the sale price if the work is resold.** This is referred to as "resale right" or "droit de suite" and only applies in

certain countries to certain types of works (e.g., paintings, drawings, prints, collages, sculptures, engravings, tapestries, ceramics, glassware, original manuscripts, etc.). Resale rights give creators the right to receive a share of the profit made on certain subsequent resales of their works. Such share generally varies from 2% to 5% of the total sales price.

b. Moral rights

Most countries recognize moral rights, but the scope of these rights varies widely (the United States of America, for example, only have moral rights in works of fine art). Most countries recognize at least the following two types of moral rights:

- **The right to be named as the author of the work ("authorship right" or "paternity right").** When the work of an author is reproduced, published, communicated to the public, or exhibited in public, the person responsible for doing so must make sure that the author's name appears on or in relation to the work, whenever reasonable; and
- **The right to protect the integrity of the work.** It prohibits the making of any changes, modifications or alterations to a work that would tend to damage the author's honor or reputation. For example, a photographer has the right to prevent colorization of black and white pictures.

Unlike economic rights, moral rights cannot be transferred to someone else, because they are personal to the creator (however, they may pass on to the creator's heirs). Even if you sell your economic rights in the work to someone else, you retain your moral rights in the work. However, in some countries, an author may waive his moral rights by a written agreement, whereby he agrees not to exercise some or all of

his moral rights. Other countries allow such agreements but subject to certain conditions, for instance, for a limited period of time.

Example

Imagine the use of a popular character from a children's book in a pornographic film. Even if the author no longer owns any economic rights in the book, in view of moral rights, the author will be able to object to such use and take effective steps to prevent or stop it.

2. Basics of related rights

(3) Definition of related rights

There are three kinds of "related rights" or "neighboring rights":

- c. rights of performers(actors, musicians, singers, dancers, or generally people who perform) in their performances;
- d. rights of producers of sound recordings(also called phonograms) in their recordings (cassette recordings, compact discs, etc.); and
- e. rights of broadcasting organizations in their radio and television programs and in Internet broadcasts such as 'podcasts'.

<Distinction between copyright and related rights>

Copyright and related rights protect works of different categories of people. Copyright protects works of authors, whereas related rights are rights granted to a few categories of people for their important role in communicating and disseminating some types of works to the public.

Example

In the case of a song, copyright protects the music of the composer and the words of the writer, and related rights would apply to

- a. the performances of the musicians and singers who perform the song;
- b. the sound recording of the producer in which the song is included; and
- c. the broadcast program of the organization that produces the program containing the song.

(4) Rights that related rights provide

- a. Performers (such as actors, singers, musicians and dancers): Most copyright or related rights laws require you to obtain the consent of the performer prior to recording, broadcasting or delivering by cable a live performance, as well



as prior to reproducing recordings of their performances. Certain countries, such as the member States of the European Union, also grant performers a rental right in respect of phonograms and audiovisual works containing their performances.

- b. Producers of phonograms: They have a legal right in their recordings to take action against unauthorized copying, use or distribution (piracy). The most important rights here are the right to control the reproduction of their phonograms, and to



receive equitable remuneration when their phonograms are broadcast or communicated to the public. In many countries, producers can also prohibit the importation and the distribution of their phonograms.

- c. Broadcasters: They enjoy the right to control the rebroadcasting, fixation (recording) and reproduction of their broadcasts. In certain countries, they also have the right to authorize or prohibit cable transmissions of the broadcasts.



The protection offered by related rights in no way detracts from any copyright protection that may exist in the works being performed, recorded or broadcast. Thus, for example, the right given to broadcasters is separate from the copyright in the films, music and other material that is transmitted.

3. Period of protection

Unlike other IP rights where registration is required, copyright and related rights protection itself does not depend on official procedures. A work is automatically protected as soon as it exists, without any special registration, deposit, payment of fee or any other formal or administrative requirement.

Copyright lasts only for a limited time. Once your copyright has expired, the material is no longer protected, and it is said to be in the public domain.

For most works, and in most countries, protection of the economic rights lasts for the lifetime of the author plus an additional period of at least 50 years. In a number of countries, this period is even longer (for example, 70 years after the death of the author in Europe and in the United States of America). It is, thus, not only the author who benefits from the work but also his/her heirs. If several authors are involved (work of joint authorship) then the term of protection is calculated from the death of the last surviving author.



Depending on the national law, special provisions may apply to certain categories of works, especially for:

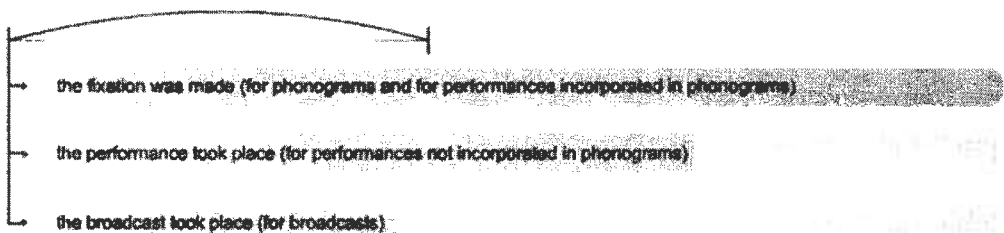
- (3) works made by employees and commissioned works (the duration is sometimes 95 years from publication or 120 years from creation);
- (4) works of joint authorship;

- (5) cinematographic works;
- (6) anonymous or pseudonymous works;
- (7) photographic works and works of applied art (which sometimes have a shorter term of protection);
- (8) works created by the government (which may be excluded from copyright protection);
- (9) works published after the author has died; and
- (10) typographical arrangements.

The term of protection of moral rights differs: in some countries, moral rights are perpetual, whereas in others, they expire at the same time as the economic rights.

The duration of protection for related rights is much shorter than for copyright. In some countries, related rights are protected for a period of 20 years, computed from the end of the year in which the fixation was made (for phonograms and for performances incorporated in phonograms); the performance took place (for performances not incorporated in phonograms); or the broadcast took place (for broadcasts). Many countries, however, now protect related rights for 50 years after the performance, fixation or broadcast.

In many countries, it is 50 years from the end of the year in which



In some countries, related rights are protected only for a period of 20 years from the date of the performance, fixation or broadcast.

Compared to other types of IP, the term of protection for copyright is relatively long. The rationale behind is that those who create original expressions need protection for their works so that they can receive appropriate compensation for their intellectual effort.

The real goal of copyright is to provide for the general welfare and promote the progress of science and arts by encouraging further creation. The rationale behind copyright is to encourage the production of new works, both by guaranteeing creators some exclusivity for a limited time, and by making sure that there is a robust public domain of copyright-free material that creators can draw on and incorporate into new works.

Copyright tries to find a balance needs between the right of all to participate freely in the cultural life of the society and to enjoy the artistic and literary creations, and the right of the author to the protection of his moral and material interests.

More Reference 2-1: A work in the public domain

If no one has copyright in a work, that work belongs to the public domain and anyone may freely use it for any purpose whatsoever. The following types of works are in the public domain:

1. a work for which the copyright protection period has expired
2. a work that cannot be protected by copyright (e.g., title of a book); and
3. a work for which the copyright owner has explicitly abandoned his rights, for example, by putting a public domain notice on the work.

Absence of a copyright notice does not imply that a work is in the public domain, even if the work is available on a website.

LEARNING POINT 3: Ownership of copyright

1. Meaning of ownership of copyright

The meaning of 'authorship' and of 'ownership' is often confused. The author of a work is the person who created the work. A person who merely contributes ideas, information or suggestions and who does not contribute to the expression of the work is not an "author." This means that even if you come up with an idea for an artwork, for example, you will not be considered as the "author" if you did not actually create the artwork. If the work was created by more than one person, then all the creators are considered as co-authors or joint authors. The issue of authorship is especially relevant in connection with moral rights.

Copyright ownership is a different issue. The owner of the copyright in a work is the person who has the exclusive rights to exploit the work, for example, to use, copy, sell, and make derivative works. Generally, copyright in a work initially belongs to the person who actually created it, that is to say, the author. However, this is not the case in every country and may particularly not be the case in the following circumstances:

- (3) if the work was created by an employee as part of his job;
- (4) if the work was commissioned or specially ordered; or
- (5) if the work was created by several persons.

Note that contractual agreements may alter or clarify the general results established by law in respect of ownership of copyright. For some more details, see the following three sections.

2. In case of commissioned works

(1) Who owns the copyright in commissioned works?

If a work was created in the course of a commission contract, the situation is different. In most countries, the creator owns the copyright in the commissioned work, and the person who ordered the work will only have a license to use the work for the purposes for which it was commissioned. Many composers, photographers, freelance journalists, graphic designers, computer programmers and website designers work on this basis. The issue of ownership most often arises in connection with re-use of commissioned material.

Example

You outsource the creation of an advertisement for your company. At the time, you intend to use it to promote your new product at a trade show. Under most national laws, the advertising agency will own the copyright, unless it was expressly agreed otherwise in the contract. Some time later, you want to use parts of the advertisement (a graphic design, a photo or a logo) on your new website. You must take permission of the advertising agency to use the copyright material in this new way. This is because the use of the material on your website wasn't contemplated or envisaged at the time of the original contract.

Nevertheless, there are some exceptional cases, such as photographs taken for private purposes, portraits and engravings, sound recordings, cinematographic films, where, in some countries, the one who commissions the work owns the copyright in it, unless agreed otherwise.

As is the case in the employer-employee context, it is always a good idea to address copyright ownership issues in a written agreement which should be entered into before commissioning external creative services.

(2) Ownership of Copyright and License/Assignment Agreements

When you enter into a relationship involving the creation of a work that would be protected by copyright, be sure that you know what rights you own in the work according to the national law(s). Be clear about the uses you want to make of the material and consider whether or not you need to own copyright. This may depend on:

- a. whether or not you want to prevent unauthorized uses;
- b. whether or not you want to license the work to others;
- c. whether or not you want to re-use the work for different purposes in the future; and
- d. how much you want to pay to the author of the work.

In order to ensure ownership of the copyright in a work, you may:

- b. sign a written agreement with the author (or the current copyright owner) of the work, stating that the copyright is transferred, or the rights concerned are licensed, to your company before commencement of any work. In practice, a clause on the envisaged copyright assignment/license should be included in the basic commissioning or employment contract;
- c. obtain a waiver of moral rights, if need be;
- d. obtain confirmatory assignment documents immediately after completion of the work, specifically naming the copyright work by title;
- e. register the work with the national copyright office, if possible.

3. In case of works created by an employee

(1) Who owns the copyright in works created by an employee?

In some countries, if a work was created by an employee within the scope of his/her employment, then the employer automatically owns the copyright, unless otherwise agreed. But this is not always the case. Under the copyright law of some other countries, the transfer of rights to the employer may not be automatic and/or may have to be specified in the employment contract.

Example 1

A computer programmer is employed by a company. As part of his job, he makes video games, during normal working hours and using the equipment provided by the company. The economic rights over the software will, in most countries, belong to the company.

Example 2

A journalist writes feature articles for the newspaper where she is employed. In most countries, the employer will own the right to publish the articles in the newspaper, even without an explicit agreement to that effect in the employment contract. In some countries, however, the journalist will preserve the right to publish a later compilation of the articles in a book, unless the employment contract stipulates expressly otherwise.

Disputes often arise in the event an employee does some work at home or after hours, or produces work not within the scope of the employee's ordinary employment. It is a good practice, as a precautionary measure, to have employees sign a written agreement that clearly addresses all the relevant copyright issues before commencement of any work.

4. In case of works created by several authors

(1) Who owns the copyright in works created by several authors?

A basic requirement of co-authorship is that each co-author's contribution must itself be copyrightable subject matter. In case of co-authorship, the rights are usually exercised on the basis of an agreement between all the co-authors. In the absence of such agreement, the following rules generally apply:

- a. **Joint works.** When two or more authors agree to merge their contributions into an inseparable or interdependent combination of the individual contributions, that is, into a unitary whole, a "joint work" is created. An example of a joint work is a textbook in which two or more authors contribute separate components that are intended to be combined into a single work. Joint authorship is a matter of intention it does not happen by accident or by someone contributing something to be put in a work.

In a joint work so created, the contributing authors become the joint owners of the entire work by operation of copyright law. This has important implications relating to how the work may be used and who may authorize any use. Many countries require that all joint owners must consent to exercise of copyright. In other countries, for example, the United States of America, any one of the joint owners can exploit the work without permission of the other co-author(s) (but must share the profits generated from such use). A thoughtful agreement among the authors or owners is usually preferable to joint copyright ownership. In fact, in general, joint copyright ownership is problematic and, whenever possible, should be avoided as it may be a huge and potentially complex long term partnership. When it cannot be avoided, then joint copyright owners should enter into a detailed written agreement, specifying such topics as ownership and use issues, rights to revise the

works, marketing and sharing of any revenue, and warranties against copyright infringement.

- b. **Collective works.** If the authors do not intend the work to be a joint work and would like their contributions to be used separately, then the work will be deemed to be "collective." Examples of collective works are a CD which is a compilation of songs by various composers or a magazine containing articles by freelance authors. In that case, each author owns the copyright in the part he created.

- c. **Derivative works.** A derivative work is a work based on one or more pre-existing works, such as a translation, musical arrangement, art reproduction, dramatization or motion picture version. Making derivative works is an exclusive right of the copyright owner. Therefore, if the original work is protected by copyright, you cannot prepare a derivative work without the copyright owner's permission. For example, the author of Harry Potter books was paid a considerable remuneration for the right to make movies from her best-selling novels. 'West Side Story', on the contrary, is based on Shakespeare's 'Romeo and Juliet', which is the 'public domain'. Anyone is free to write and exploit a screenplay based on that novel.

A derivative work itself can qualify for separate copyright protection, but the copyright extends only to those aspects which are original to the derivative work. For example, the copyright in a collage is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of any copyright protection in the borrowed artworks, photographs, magazine advertisements, etc. The collage artist enjoys copyright only in the new matter that he has added (or in his own selection, arrangement and elaboration of the preexisting works), but not in the underlying works themselves.

In practice, it is not always easy to distinguish a joint work from a collective or a derivative work. Indeed, the various authors of a joint work often make their respective contributions independently and at different times, so that there may be 'earlier' and 'later' works. It is the mutual intent of the co-authors whether or not to be joint authors that will determine, in most countries, joint-work or a collective/derivative work. Joint authorship requires intent - without the intent to create a joint work, two or more authors producing inseparable or interdependent works will produce a derivative or collective work.

More Reference 3-1: Copyright infringement

1. Your economic rights may be infringed if someone, without authorization, is:
 - (2) doing an act that you alone have the exclusive right to do (e.g. making a copy of a manual);
 - (3) dealing commercially with an infringing work (e.g., selling a pirate CD) (in some countries); or
 - (4) importing an infringing work (in some countries)

Unless the above fall within a legal exception or is otherwise excused.

There may be copyright infringement, even if only a part of a work is used. Infringement will generally occur where a "substantial part" – that is an important, essential or distinct part – is used in one of the ways exclusively reserved to the copyright owner.

However, there is no general rule on how much of a work may be used without infringing copyright. The question will be determined on a case-by-case basis, depending on the facts and circumstances. For example, twenty seconds of a four-minute song may constitute an infringement if it is seen as a vital and material part of the song.

2. Your moral rights would be infringed:
 - (2) if your contribution, as author of the work, is not recognized;

- (3) if the copier passes himself off as the author of the work; or if your work is subjected to derogatory treatment or is cut or modified in a way that would be prejudicial to your honor or reputation.

More Reference 3-2: How to get income from copyright

There are many ways to commercialize your original and/or creative works:

2. you may simply sell the original works that are protected by copyright, or make copies or reproductions and sell the copies;
3. you may allow someone else to reproduce or otherwise use the works; this can be done by licensing your economic rights over the works; or
4. you may also sell (assign) your copyright over the works, either entirely or partly.

More Reference 3-3: Role of CMOs

CMO (Collective Management Organization)

2. CMOs act as an intermediary between users and a number of copyright owners. Generally, there is one CMO per type of work and per country. However, CMOs exist for only some types of works, such as reprography, music, screen writing, film, television and video, visual arts and photography.
3. On joining a CMO, members notify the CMO about the works that they have created or own. The works are then included in the repertoire of the organization, which is consulted by interested persons or companies.
4. In order to enable the copyright or related rights owners to be represented internationally, reciprocal agreements have been entered into with other CMOs throughout the world. The CMOs then grant copyright licenses on behalf of their members, collect the payments and redistribute the amount collected, based on an agreed formula, to the copyright owners.

Details of the relevant CMOs operating in your country may be obtained from the national copyright office.

LEARNING POINT 4: Using works owned by others

2. When do you need permission?

Most businesses use others' copyright or related rights works on a regular basis. It is important to understand how you may use such works in your business without infringing copyright.

In principle, the use of any works in which someone else owns copyright requires that owner's prior consent if the planned exploitation implies the use of all or part of the rights granted to the copyright owner. For example, if you want to use a photograph on your website, you will be both reproducing it and communicating it to the public so, you will need permission from the owner. If you wish to play recorded music for your customers, or play the radio so that customers can hear it, you will need a license, to play the music, from the owner. If you want to photocopy a training manual, you will need permission from all the owners of different types of copyright works (for example, for text, images, artworks, etc., which may have different owners). Even if you use just a part of a copyright work, you will generally need prior permission.

The best way to avoid infringement is by obtaining express written permission of the copyright owner before you use or exploit the work. As a rule of thumb, it is advisable to obtain expert advice before negotiating the terms and conditions of your licensing agreement. This may be needed and useful even when a license is initially offered on standard terms and conditions.

3. When you don't need permission

Type of content or material that you are entitled to use without permission

(1) The content or material which is not protected under copyright law. For

example, if you are using the facts or ideas from a protected work, rather than the author's expression;

- (2) The work which is in, or has fallen into, the public domain; and
- (3) The content or material which is covered by the concept of 'fair use' or 'fair dealing' or by a limitation or exception specifically included in the national copyright law.

4. Process to get authorization

The best way to proceed to get authorization to use works owned by others is probably to first see if the work is registered in the repertoire of the relevant collective management organization, which considerably simplifies the process of obtaining licenses. Failing that, you will need to contact the copyright owner or agent directly. The person named in the copyright notice is probably the person who was the initial copyright owner, but over a period of time, for various reasons, the copyright is often transferred to someone else.

By searching the national copyright register (if available) you should be able to identify the current copyright owner. In case of written or musical works, you may contact the work's publisher or the record producer, who will normally own the right to reproduce the material. If you are unable to locate the copyright owner, you may consider placing a query in a newspaper or magazine to seek information about the identity of an author or his/her heirs.

Once the copyright owner has been identified, the terms and conditions for its use must be negotiated, and a licensing agreement concluded. Remember that there might be several "layers" of rights and thereby several categories of right owners, for example, both a music publisher for the composition and a recording company for the recording of music (and often also the performers). Or, if you wish to use a photo from a journal, the publisher may own the

copyright for the photo but if the subject of the photo is a well-known person, you may also need to obtain permission from the individual in the photo and the photographer.

5. How to reduce the risk of infringement

Litigation over copyright infringement may be an expensive affair, and it would be wise to implement policies that help avoid infringement. It is recommended to:

- (2) educate your staff so that they are aware of possible copyright implications of their work;
- (3) obtain written permission, licenses or assignments, where needed, and ensure that staff are familiar with the scope of these permissions, licenses or assignments;
- (4) mark any apparatus that could be used to infringe copyright (such as photocopiers, video recorders, computers, CD and DVD burners) with a clear notice that the apparatus must not be used to infringe copyright;
- (5) prohibit your staff explicitly from downloading music, video films, etc. from the Internet on office computers; and
- (6) if your business makes frequently use of products protected by TPMs, carefully develop policies to ensure that employees do not circumvent TPMs without authorization from the copyright owner, or do not exceed the scope of their authorization.

More Reference 4-1: How to find out whether a work is still protected

In accordance with the author's moral rights, his or her name will normally be indicated in connection with the work, and the year he or she died maybe available in bibliographic works or public registers.

If that search does not give clear results, you may consult the copyright

register of your country's copyright office (if any) to check for any relevant information or you may contact the relevant CMO or the publisher of the work.

Remember also that there may be several copyrights in one product, and these rights may have different owners, and with different periods of protection.

For example, a brochure may contain text and images that are protected by several and separate copyrights. So, even though the text may be in the public domain, and therefore may be used freely, the images may be under copyright protection and, therefore, prior written permission to use such images would be needed.

More Reference 4-2: Using a work under a limitation or exception

All national copyright laws include a number of limitations and exceptions, which allow either free use of works under certain circumstances, or use without permission but against a payment.

The exact provisions vary from one country to another, but generally exceptions and limitations include the use of a quotation from a published work (that is, to use short excerpts, as illustration or documentation, in an independently created work); some extent of copying for private and personal use (for example, for research and study purposes); some reproduction in libraries and archives (for example, of works out of print, where the copies are too fragile to be lent to the general public); reproduction of excerpt of works, or short works, by teachers for use by the students in a class; or the making of special copies for use by visually handicapped persons (for example, copies in Braille or audio books).

Numerous other limitations or exceptions for the benefit of various groups, exist in different national copyright and related rights laws. Quite often, the limitations and exceptions are described exhaustively in the national law, which should be consulted for guidance. Alternately, seek expert advice.

In common law countries, such as the United States of America, works are subject to "fair use." Here, the description in the copyright law is less specific. In practice, the permitted use to be considered "fair use" is determined by the relevant courts that apply various factors, such as:

2. the amount of the work used;
3. the nature of the copyright work;
4. the nature of the use (e.g., commercial or non-profit); and
5. the effect of the use on the potential market for the original work.

Examples of activities that may be permitted as "fair use" include: distributing copies of a picture from a book, periodical, or newspaper in class for educational purposes; imitating a work for the purpose of parody or social commentary; making quotations from a published work; and reverse engineering software to achieve compatibility.

Note: Even if you use other people's work under these provisions, you still need, in most countries, to cite the name of the author (moral right).

More Reference 4-3: Using works published on the internet

Works published on the Internet are protected by copyright in the same way as works published by any other means.

Numerous websites contain text, music, photographs, multimedia products, audiovisual productions or drawings. These works are protected, provided they meet the normal copyright requirements.

Often, you will find copyright information or terms and conditions of use on the home page of the website. In the absence of any clear statement or notice, you should seek prior written or formal permission to download or copy the material, if your intended use is covered by the protection.

QUIZ

Q1. Identify the incorrect statement

- 1) Copyright grants authors, composers, artists and other creators legal protection for their literary, artistic, dramatic and other types of creations.
- 2) Copyright usually protects not only works that are expressed in print, but also works that are created or stored in electronic or digital media.
- 3) Copyright protects not only the way in which an idea is expressed, but also the underlying ideas or concepts in a particular creation.
- 4) Unlike most other IP rights where registration is required, copyright and related rights protection is available as soon as a work comes into existence.

Answer : 3)

Copyright law only protects the way ideas are expressed in a particular creation. It does not protect the underlying idea, method or system. Protection for such things may sometimes be obtained under patent law or trade secret law. For example, if your company writes a book which describes a new system for beer processing, the copyright in the book will allow you to prevent others from copying the text and illustrations of the book, but it will not give you any rights to prevent competitors from adopting your ideas for commercial purposes or from using the machinery, processes, and merchandising methods described in the book.

Q2. Identify the incorrect statement:

- 1) Copyright protects works of authors, whereas related rights are granted to a few categories of people for their important role in communicating and disseminating some types of works to the public.
- 2) There are three kinds of related rights; rights of performers in their performances, rights of producers of sound recordings in their recordings, and rights of broadcasters in their broadcasts.

- 3) The right of the producer of a sound recording is separate from and additional to the copyright in the underlying composition. So, when reproducing a sound recording there may be several different rights to consider.
- 4) The copyright of the work created by an employee is automatically owned by the employer.

Answer: 4)

In most countries, if an employee creates copyright material within the scope of his/her employment, then the employer automatically owns the copyright, unless otherwise agreed. However, if an employee creates the material at a time and in a manner that is totally unconnected with his or her work as an employee, then he or she owns the copyright in it. Practical difficulties can arise, however, when work interests and hobbies overlap, creating a gray area.

Q 3. Identify the incorrect statement:

- 1) If a work was created in the course of a commission contract, the person who ordered the work will have a license to use the work for any purpose he/she wants.
- 2) To qualify for copyright protection, it must be original work which is developed independently irrespectively of artistic quality or value.
- 3) Copyright provides both economic rights and moral rights. The economic rights protect the author's economic interests and the moral rights protect the creator's creative integrity and reputation.
- 4) In most countries, protection of the economic rights lasts for the lifetime of the creator plus an additional period of at least fifty years.

Answer: 1)

In most countries, the creator owns the copyright in the commissioned work, and the person who ordered the work will only have a license to use the work for the purposes for which it was commissioned. If the person who commissioned the work to re-use the work for other purposes, he/she must obtain permission to use the copyright material in this new way.

MODULE

06

Patent Information

MODULE 06. Patent Information

OUTLINE

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 - (2) Patent Information
 - (3) Patent documents
2. Advantages of patent information

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2. State-of-the-art & Patentability search
 - (1) State-of-the-art search
 - (2) Patentability search
3. Infringement search
4. Validity search
5. Index or name search

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 - (1) CD-ROM
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3. Selection of databases
4. Example of on-line databases search

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INTRODUCTION

Even the latest gadgets get outdated in no time. Umpteen, new or improved models are constantly appearing on the market. Can something be really done to survive this fierce competition? In this module, we look at the role of patent information in protecting a business as well as in helping it to gain a competitive edge. In particular, we are going to deal with what is meant by patent information and why it is important and discuss how patent information may be used including searching patent information and strategically using the results of such a search.

LEARNING OBJECTIVES

3. You understand the concept of patent information.
4. You understand how to strategically use patent information.
5. You understand where to obtain and how to search patent information.

LEARNING POINT 1: Understanding patent information

3. Patent information & Patent documents

(3) Patent Information

It is the technical and legal information contained in patent documents that are published periodically by patent office. The phrase patent information refers to both granted patent and patent applications.

(4) Patent documents

a. Patent documents include not only the content of published patent documents but also bibliographic and other information concerning patents for inventions, inventors' certificates, utility certificates and utility models.

b. In most countries, a patent document is required to be in a standardized format.

- Front page (including abstract)

The front page of patent document contains date of filing, priority date, information on the title of the invention, bibliographic data, such as the name and address of the applicant and inventor, and an abstract.

The abstract summarizes the invention covered by the patent document. The abstract has no legal importance. It is a technical summary that is not relevant for and, therefore, cannot be used to interpret the scope of protection of the invention by the patent in question.

- Written description

The description of an invention should disclose the invention clearly and precisely to enable a person skilled in the art to understand the claimed invention and the technical information contained in it.

Preferably, it should be illustrated by examples to explain how to work or carry out the invention in practice so as to enable anyone

skilled in the relevant technical field or “art” to do so likewise, without undue experimentation.

- Claims

The claims define the scope of legal protection. In patent litigation, interpreting claims is the first step in determining whether the patent is valid and whether the patent has been infringed.

- Drawings (if necessary)

The drawings show technical details of the invention in an abstract and visual way. They help to explain some information, tool or result set out in the written description.

Drawings are not always a necessary part of the patent specification. If the invention is for a process or method of doing something, drawings usually are not required. If drawings are required, formal rules govern their acceptability.

2. Advantages of patent information

(1) Up to date information

In most countries, a patent application is published 18 months after it is filed. There is therefore always a time lag between the invention and the publication of the patent application. Generally, however, patents are granted well before a patented product is introduced in the market. As such, the publication of a patent application, despite the time lag, is invariably the earliest point in time at which the relevant information becomes available to the public.

(2) Uniform structure

Patent documents have a relatively standardized format including an abstract, bibliographic information, a description of and, in most cases, also drawings illustrating the invention and full details of the applicant.

Such uniform structure makes reading easier.

(5) Detailed description

As the invention has to be disclosed in a manner that is sufficiently clear and complete for it to be carried out by a person skilled in the relevant art, the background, description and drawings provide much more detailed information about a technology than any other type of scientific or technical publication.

(6) Unique source of information

It is estimated that some 70% of the information disclosed in patent documents have never been published anywhere else. It is also growing in size every day. To date, some 50 million patent documents have been published worldwide in every technical field with about two million more documents added each year.

(7) Well organized information

For easier search and retrieval of patent documents, they are classified in accordance with an internationally accepted classification system called the International Patent Classification (IPC)

More References 1-1: IPC (International Patent Classification)				
1. Definition				
The IPC is a hierarchical system of classifying technology by dividing them into a range of sections, classes, subclasses and groups.				
2. Principle of classifying				
The IPC employs the principle of classifying inventions according to their intrinsic nature (the "function-oriented" principle), rather than their possible "applications". Still, the IPC contains both function-oriented places and application places and is a combined function/application classification system in which the function takes precedence.				
An illustration of a complete classification symbol of IPC is shown below :				
A	21	B	1 / 08	
Section	Class	Subclass	Main group	Sub group

The classification scheme containing about 70,000 classification symbols is arranged in a hierarchical, tree-like structure.

- (3) Section: The lowest hierarchical levels are the eight sections of the IPC corresponding to very broad technical fields. (Section A=Human Necessities)
- (4) Class: Sections are subdivided into 120 classes in the eighth edition of the IPC. (Class A 21=Baking; Edible dough)
- (5) Subclass: Classes are further subdivided into more than 600 subclasses. (Subclass A 21 B=Bakers' ovens; Machines or equipment for baking)
- (6) Main group: Main group symbols always end with "/00". (Main group A 21 B 1/00 = Bakers' ovens)
- (7) Sub group: The hierarchy of the subgroups under main groups is designated by dots preceding the titles of the entries.

Main group A 21 B 1/00 ("Bakers' oven") is divided into 19 subgroups, the first four of which are the following:

A 21 B 1/02 . characterized by the heating arrangements
A 21 B 1/04 .. Ovens heated by fire before baking only
A 21 B 1/06 .. Ovens heated by radiators
A 21 B 1/08 ... by steam-heated radiators

As can be seen from the above example, not all the subgroups are on the same hierarchical level; the highest are preceded by one dot, the lower-according to their level-by two, three, four or more dots.

(8) Quick and easy access

Patent information may be stored in a variety of information carriers like paper, microfiches, CD-ROM and on-line databases. On-line searching has facilitated quicker, cheaper, and more convenient access to patent information than the conventional manual or CD-ROM based searching method.

(9) Wide fields of technology

While not all inventions are patented, for some inventions may be protected by trade secrets rather than by patents, inventions protected by patents cover virtually every field of technology from the simplest to the most complex.

As such, patents provide information on every sphere of scientific and technological activity.

(10) Citations Intelligence

Citations on the patent document are information of prior art cited by examiners or applicants. The examiner cites References which contain relevant prior art to judge the patentability during the patent prosecution.

US patents provide the citations on the front page of the publication and the EPO and PCT documents provide them as part of the Search Report.

An applicant may also give References to other patents and to journal articles in the description of an application. Citations are an important tool for analyzing the research and development activities and the technical trend of competitors.

<p>More References 1-2: Patent Family</p> <p>1. Definition</p> <p>When an applicant seeks to patent an invention in multiple countries, then all such patent applications and the subsequent publications that relate to the same invention are collectively called a patent family. There are at least three ways of defining a patent family:</p> <ul style="list-style-type: none"> (1) All the patent documents which are directly or indirectly linked via a priority document belong to the same patent family. (2) All the patent documents having at least one priority in common belong to the same patent family. (3) All the patent documents having exactly the same priority or priorities in combination, belong to the same patent family.

To create a patent family, therefore a patent must be filed in several countries. A patentee takes on additional costs to extend protection to other countries only if it seems worthwhile to do so. Thus, patents that are members of families will generally be of higher value than those filed in a single country.

2. Importance

Patent families are particularly important:

- (3) to find an invention described in another language
- (4) to estimate the global importance of an invention (the more patent family members there are the more likely that the invention is an important one)
- (5) to identify competitors or potential business partners in global marketing strategies for a product or process

LEARNING POINT 2: Type of patent information search

3. State-of-the-art & Patentability search

(1) State-of-the-art search

- a. It provides a broad overview of a defined technological field as it covers all or broad range of patent and non patent literature relating to it.
- b. It reveals relevant published papers, studies, other non-patent literature, as well as patents expired and unexpired, as well as published patent applications worldwide.
- c. It is mainly used for establishing the starting point and direction of new research and development projects.

(2) Patentability search

It is narrower in scope than a state-of-the-art search. It is done with

Reference to a defined field of technology, such as that contained in an invention disclosure, for identifying relevant prior art for evaluating the novelty and/or non-obviousness of the disclosed invention.

The results of a patentability search are very useful for drafting stronger or better patent claims, and may also reveal potential conflicts with patents owned by others and/or the possibilities for getting around them.

A patentability search is done while preparing and before filing a patent application. It helps the applicant to decide whether or not (1) to file a patent application, or (2) to proceed with the patent application as drafted, or (3) to undertake further research and development to make further improvements to the invention for getting a stronger patent.

2. Infringement search

Also known as a “right to use” or “freedom to operate” or “clearance” search, it is done to determine if any unexpired (in-force) patents would be infringed by launching a product on the market or by otherwise practicing the invention in question.

By this search a party is “cleared” to make, use, sell or import a product incorporating the invention. It involves a study of all the claims of all the relevant patents which are still in force to determine their scope of protection so as to avoid doing anything which will be considered to be an infringement of an unexpired patent. For assessing potential infringement, it would be necessary to study the claims of all relevant published patent applications too.

Thus, periodically conducting a search at the stage of technical development, product development or before marketing a product will enable a company to identify related patents and to ascertain their legal status in time to prevent an infringement

3. Validity search

If the infringement search uncovers a patent that poses an infringement risk, then a validity search may be performed to help determine whether the patent so uncovered is valid. It is conducted after a patent is granted to assess whether the patent was properly granted. It looks for any publication (prior art) that can be used to prove that one or more claims of the patent are invalid. Validity searches are done because of current or anticipated litigation, in the context of licensing negotiations, and as part of the due diligence process for assessing the value of a patent.

To challenge the validity of a patent, you have to search for patent or other documents that could challenge its novelty or inventive step and uncover issued patents or other published prior art that may render such a patent partially or completely invalid. Thus, a validity search can be useful as a defensive tool when a company is concerned about infringing a particular patent.

4. Index or name search

This is done to find out the names of inventors, researchers or companies in whose names patents are filed, issued or assigned.

This type of search is also employed to locate “patent families” or equivalent patents in various countries. A patent family search may help to locate an equivalent patent in a known language so as to avoid the cost of translation.

By analyzing the bibliographical data of numerous patent documents, it may be possible to identify the leading inventors, researchers or companies in a particular technology sector and to gain an insight into their research or patent strategies.

LEARNING POINT 3: Method of patent information search

Once you know your objective then you must select the source of patent information, such as the relevant databases that could be relevant for that objective, collect the patent documents, and analyze them in order to serve your objectives.

3. Types of patent information databases

Patent information may be stored in a variety of information carriers like paper, microfiches, CD-ROM and on-line databases.

(1) CD-ROM

CD-ROM databases are very convenient for documentary searches. Users need no outside connections, and can work with a CD-ROM driver plus a computer. However, they are soon out of date.

(2) Online databases

Anyone who has access to the internet is able to browse the full text of published patent documents via free of charge or commercial databases.

a. Free of charge databases

Many national patent offices have launched free-of-charge patent information databases, which are open to the public.

The free services work well for simple searches, but are not a suitable tool for executing more complex investigations and legally motivated searches.

Ex) The Full-Text and Full-Page Image Database of the USPTO, esp@cenet[®] provided by EPO

b. Commercial databases

Commercial service offers enhanced or value added patent information, based on the actual requirements of particular end users.

Commercial database hosts offer different types of clearing procedures or fees.

Ex) WIPS, Derwent, Dialog, STN, Questel Orbit, Micropatent

More References 3-1: Comparison of databases of USPTO, EPO and WIPO PCT			
	USPTO	Esp@cenet	PCT
Search Method			
Basic text search	O	O	O
Patent number search	O	O	O
Boolean text search	O	O	O
Advanced	O	O	O
Subject			
All classes of IPC	O	O	O
Patent collections searched			
US (application & granted)	O	O	O
European(application & granted)		O	
PAJ (English abstract)		O	
WIPO PCT		O	O
Document			
Browse abstract	O	O	O
Browse full text	O	O	O
Browse images	O	O	O
Print text/image	O	O	O
File data			
Date	1975	1987	1983
Updated	weekly	weekly	weekly

2. Selection of databases

Depending on the purpose in hand, the choice of databases may be governed by a number of criteria relating to the nature of the task.

For example, if you are interested in technologies developed within a particular country, you may confine your search to the databases covering the inventions

in that country. However, if you are more interested in a global overview, the international databases would be more relevant. If your interest is simply to retrieve prior art for a patent application, then the free on-line database will suffice. On the other hand, if your interest is in R&D or in M&A the commercial patent databases will be more useful.

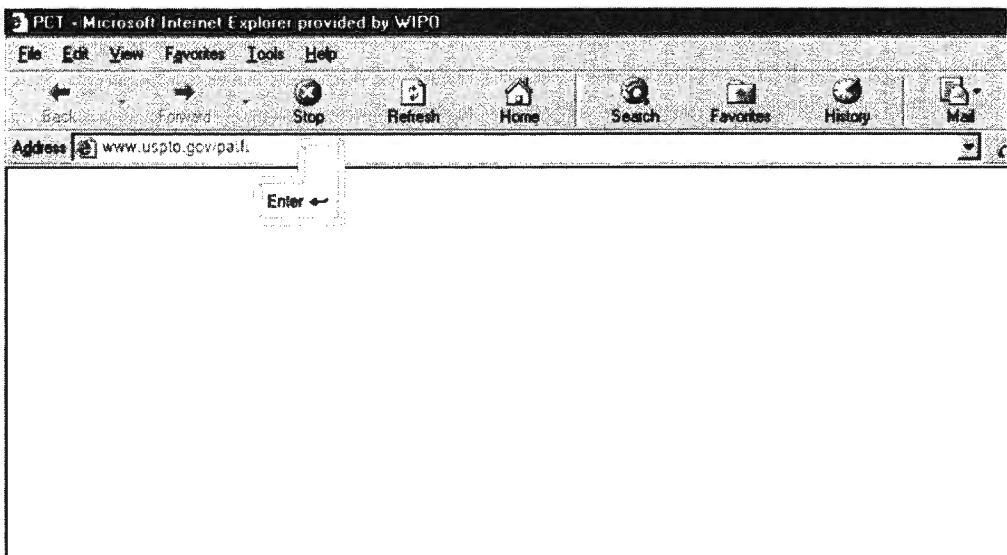
In general, novice and occasional users of patent information tend to use only the free services, while professional users tend to use both free and commercial services.

3. Example of on-line databases search

The following will demonstrate a patent information search using “The Full-Text and Full-Image Database” at USPTO’s patent searching website (www.uspto.gov/patft).

(1) How to access Full-Text database

First, enter www.uspto.gov/patft in the address line.



Then, you can see the “Full-Text and Full-Page Image Database” of the USPTO. These databases allow you to search the patent information from issued patents and published applications.

United States Patent and Trademark Office

Home Site Index Search FAQ Glossary Contact Us Business Alerts Home Help

Patent Electronic Business Center : Patent Full-Text and Full-Page Image Database

Issued Patents (PatFT)
(Full-text since 1976, full-page images since 1700)

- Quick Search
- Advanced Search
- Patent Number Search
- View Patent Full-Page Images
How to View Patent Images
- Status & Event History
- Database Contents
- Help Files

Published Applications (AppFT)
(Published since 13 March 2001)

- Quick Search
- Advanced Search
- Publication Number Search
- View Publication Full-Page Images
How to View Published Application Images
- Status & Event History
- Help Files

Information Applicable to Both Databases

Important Notices and Policies - Please read!
How to Access and View Full-Page Images
Problems Using the Databases?
Report Errors in Data Content

Related USPTO Services

Tools to Help in Searching by Patent Classification

Patent Application Information Retrieval (PAIR)
Patent Assignment Database
Downloadable Published Sequence Listings

The Full-Text database is available for patent searching, which contains hyperlinks from the images button to the full-page images of each page of each patent in the database.

USPTO PATENT FULL-TEXT AND IMAGE DATABASE

Search Quick Advanced Full-Text Help

Full-Text Patent List Patent Patent

View Card Add to Cart

Images

(1 of 1910)

United States Patent
Albert, et al.

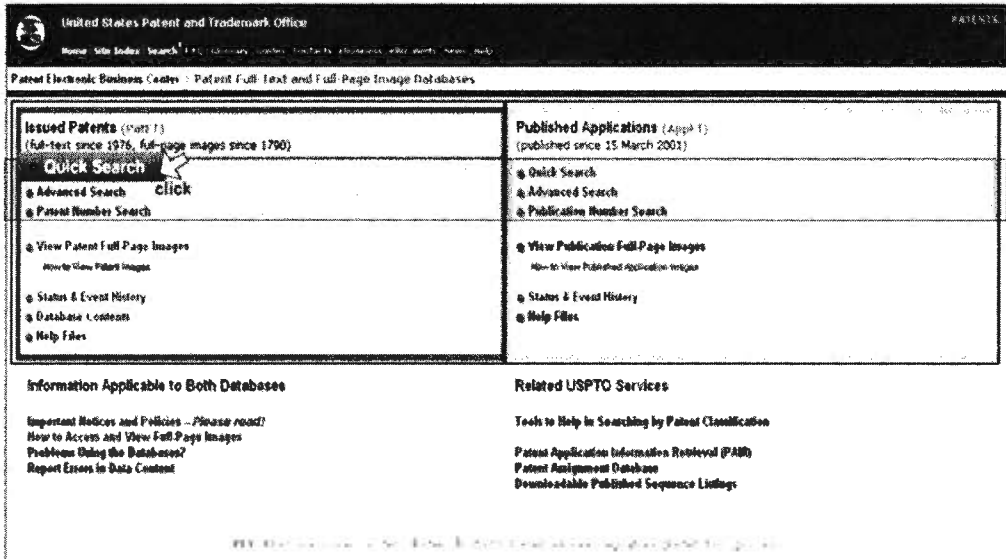
7,126,467
October 24, 2005

Enhanced fire, safety, security, and health monitoring and alarm response method, system and device

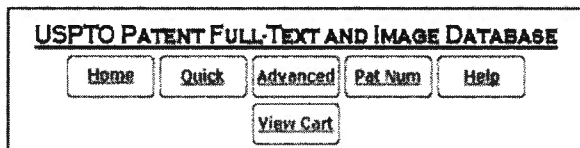
Abstract

Method, system and device useful with conventional personal computers respond automatically to an identified alarm sound by sending a notification signal via the Internet only when a special sound monitoring program is active. Additionally, bedside detection of abnormal alarms is combined with enhanced waking devices to ensure the waking of a child or hearing impaired person in response to an emergency. Home safety and security are provided using a bedside unit to monitor audible safety and security alarms and send notification signals to the appropriate communication site. A health monitoring method and system utilizes the bedside device to monitor breathing patterns and other health measuring signals and communicate these patterns and signals to a medical monitoring station.

Inventors: Albert, David E. (Oklahoma City, OK); Albert, Kathryn Marie (Oklahoma City, OK)
Assignee: InnovAlarm Corporation (Oklahoma City, OK)
Appl. No.: 10/897,487
Filed: July 21, 2004



When you click a Quick Search, you can see a web page as follows:



Data current through

Query [\[Help\]](#)

Term 1: in Field 1:

Term 2: in Field 2:

Select years [\[Help\]](#)

Patents from 1790 through 1975 are searchable only by Issue Date, Patent Number, and Current I
When searching for specific numbers in the Patent Number field, patent numbers must be seven characters in length.

The buttons at the top of the screen, Home, Quick etc, are used to quickly move from one location to another.

You may search the database using two-term Quick search queries, field, date range, phrase, and right truncation.

a. Two-term quick search queries

You can use the Quick search page to compose using two-term quick search queries presenting Boolean operator, AND, OR and AND NOT.

1 Two-term quick search queries

Data current through 0

Query [\[Help\]](#)

Term 1: in Field 1:

Term 2:

Select years [\[Help\]](#)

Patents from 1790 through 1975 are searchable only by Issue
When searching for specific numbers in the Patent Number field, patent numbers r

- AND operator : Both terms must be present in the search result.
- OR operator : At least one term must be present.
- AND NOT operator : The first term must be present and the second not be present.

Let us use the terms of 'Fire' and 'Alarm'. Now select the 'AND' operator and check the result by pressing the 'Search' button.

1 Two-term quick search queries

Data current through 0

Query [\[Help\]](#)

Term 1: in Field 1:

Term 2:

Select years [\[Help\]](#)

Patents from 1790 through 1975 are searchable only by Issue
When searching for specific numbers in the Patent Number field, patent numbers r

1 Two-term quick search queries

Data current through C

Query [Help]

Term 1: in Field 1:

AND

Term 2:

Select years [Help]

Patents from 1790 through 1975 are searchable only by Issue Date.
When searching for specific numbers in the Patent Number field, patent numbers issued after 1975 will be included.

The result will show that the patent numbers start with the most recently issued.

1 Two-term quick search queries

Searching US Patent Collection...

Results of Search in US Patent Collection db for:
fire AND alarm: 8444 patents.

Hits 1 through 50 out of 8444

PAT. NO.	Title
1 7,127,733	System for bi-directional voice and data communications over a video distribution network
2 7,127,270	Wireless communication and control system
3 7,127,230	Methods and computer program products for providing communications in emergency situations
4 7,126,951	System and method for identifying the floor number where a firefighter in need of help is located using propagation time

If you want to see the detail information of the patent, just click on the patent number or title.

1 Two-term quick search queries

Next List Bottom View Cart

Searching US Patent Collection...

Results of Search in US Patent Collection db for:
fire AND alarm: 8444 patents.
 Hits 1 through 50 out of 8444

Next 50 Hits

Jump To

Refine Search fire AND alarm

PAT. NO.	Title
1 7,127,733	System for bi-directional voice and data communications over a video distribution network
2 7,127,270	Wireless communication and control system <small>click</small>
3 7,127,230	Methods and computer program products for providing communications in emergency situations
4 7,126,951	System and method for identifying the floor number where a firefighter in need of help is located using propagation time

You are looking at the full text of that patent. Furthermore, you can look at images of each page by simply clicking "Images" button at the top of the Full-Text page.

1 Two-term quick search queries

2 7,127,270 1 Wireless communication and control system

USPTO PATENT FULL-TEXT AND IMAGE DATABASE

Home Search Advanced Pat. Stats Title
 Full List Next List Previous Next Bottom
 View Cart Add to Cart
 Images click

(2 of 8444)

United States Patent
 Sinclair

7,127,270
 October 24, 2006

Wireless communication and control system


Abstract

A communication and control system for use by the disabled and their caretakers. The system has at least two communication modules, each module having a processing unit which has a unique identification code. Each communication module also has a unique hierarchical address corresponding to the identification code, the address defining the physical location of the module. The hierarchical address represents at least two physical domains. Each communication module further includes a processing unit having coupled to it one or both of a signal receiver and a signal transmitter, and at least one transducer for detecting a physical parameter and for broadcasting packets of data indicative of the status of a module or for controlling a remote module.

Inventors: Sinclair, John (Torbert, GB)
 Assignee: SRS Technology Ltd. (GB)
 Appl. No: 10/110,521

Publication Number: 07127270 Section: Front Page 1 of 20 pages Help

AlternTIFF



US 07127270

(52) **United States Patent**
Stclair

(54) **WIRELESS COMMUNICATIONS AND CONTROL SYSTEM**

(75) Inventor: John Stclair, Engineer (US)

(73) Assignor: SRS Technology Ltd. (GB)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 528 days.

(21) Appl. No.: 08/116,521

(*) PCT Filed: Oct. 11, 2001

(86) PCT No.: PCT/GB00/00991
 0 371 Int. Cl. (2) (4) Date: Aug. 12, 2002

(85) PCT Pub. No.: W-01/017703
 PCT Pub. Date: Apr. 19, 2001

(65) Prior Publication Date
 US 2002/0073461 A1 Apr. 17, 2002

(70) Foreign Application Priority Data

(80) Patent No.: **US 7,127,270 B2**

(65) Date of Patent: **Oct. 24, 2006**

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Prietary Examiner: Abraham Mofrad
 (74) Attorney: Agostin & Fawcett, Kansas, Canby, Ipswich, Andover & Fildes-Webb, PC

(57) **ABSTRACT**

A communication and control system for use by the disabled

▲ Full Text
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Go to Page:

Sections:

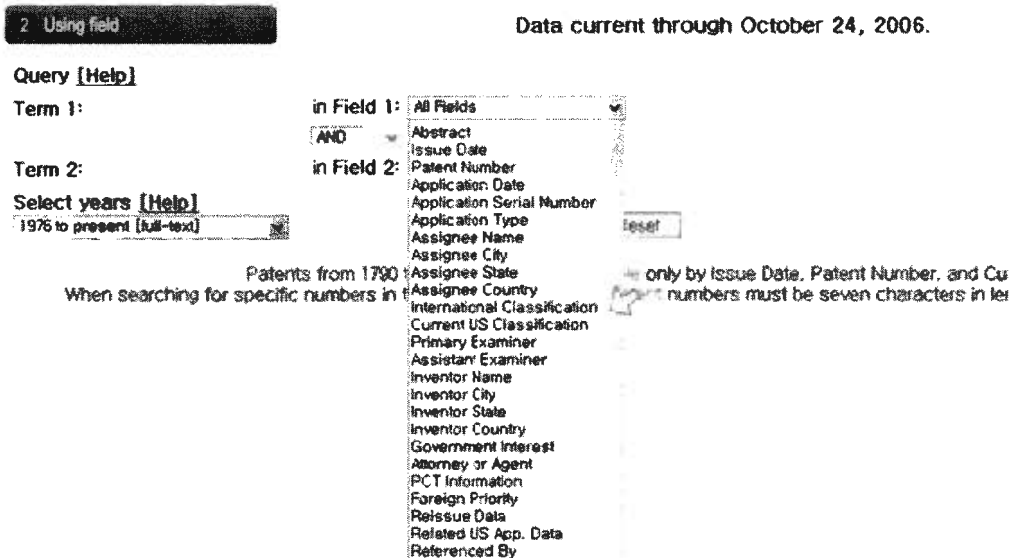
- Front Page
- Drawings
- Specifications
- Claims

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If you have a properly installed G4TIFF image viewer or plug-in, this will bring up the full-page image of the first page of the patent along with navigation buttons for retrieving the other pages of the document.

b. Field Searching in Quick Search Page

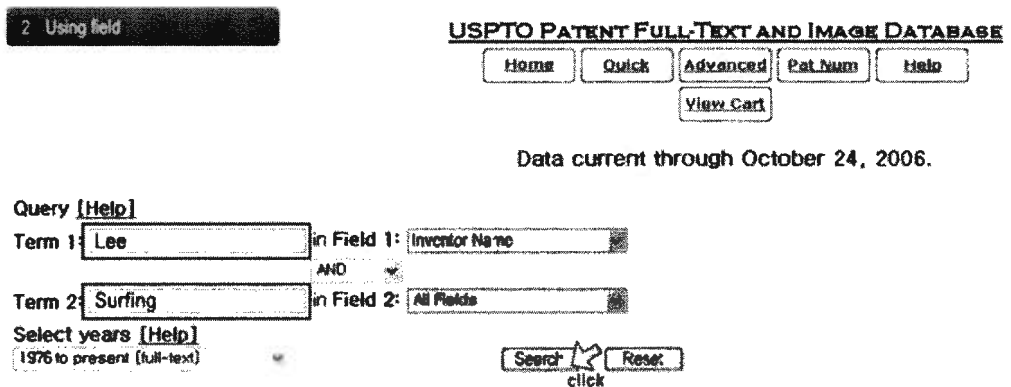
You can search individual fields within patents by choosing one of a list of all indexed fields from the FIELD drop-down menu.



For example, you want to look for something patented by an inventor named 'Lee' and something to do with 'Surfing'.

Enter 'Lee' in the 'Term 1' box, and select 'Inventor Name' from the 'Field 1' menu. Then, type 'Surfing' in the 'Term 2' box and select 'All Fields' from the 'Field 2' menu.

Select 'AND' from the 'Operator' menu, and hit the 'Search' button.



Patents from 1790 through 1975 are searchable only by Issue Date, Patent Number, and Current US Classification numbers. Patent numbers must be seven characters in length.

Search results

Searching US Patent Collection...

Results of Search in US Patent Collection db for:
RV/Lea AND surfing- 45 patents.
 Hits 1 through 45 out of 45

Jump To

Refine Search RV/Lea AND surfing

PAT. NO.	Title
1 7,150,796	Fontsize terminal device having a display unit utilizing a holographic screen
2 7,074,166	System for human physical evaluation and accomplish improved physical performance
3 7,067,548	Focus of previous program channel
4 7,057,477	Load balancing in set top cable box environment
5 7,055,395	Method and apparatus for caching for streaming data
6 7,054,805	One table method for water sport live boat
7 6,997,504	Group based search engine generating search results various based on at least one criterion previously made by member of the user communication system is independent from initiation system
8 6,996,196	Language based toy manipulation
9 6,994,664	Electronic program guide viewing history generator method and system
10 6,981,241	Variable aquatic floating net for leisure and sports
11 6,979,175	Gaming machines and systems offering simultaneous play of multiple games and methods of gaming
12 6,976,000	Search news device
13 6,933,308	Satellite communication system utilizing low density parity check codes
14 6,934,704	System for collecting and storing email addresses with associated descriptors in a bookmark list in association with network addresses documents using a browser program
15 6,778,120	Real-time audio/video communication method for use on the internet and device therefor
16 6,754,241	
17 6,745,367	

c. Date Range Searching

You can specify a range of dates rather than having to specify a certain day or month to narrow your search.

This feature is only available in date fields, such as Issue Date and Application Date.

4 Using date range

USPTO PATENT FULL-TEXT AND IMAGE DATABASE

Data current through October 24, 2006.

Query [Help]

Term 1:

in Field 1: All Fields

Term 2:

- All Fields
- Title
- Abstract
- Issue Date
- Patent Number
- Application Date
- Application Serial Number
- Application Type
- Assignee Name
- Assignee City
- Assignee State
- Assignee Country
- International Classification
- Current US Classification
- Primary Examiner
- Assistant Examiner

Select years [Help]

1976 to present (full-text)

Date fields!

Patents from 1790
 When searching for specific numbers in

Reset

only by Issue Date. Patent Number, and Cu
 tent numbers must be seven characters in le

For example, if you want to search patents issued any date on or after Nov. 1, 1997 and before or on May 12, 1998, enter "11/1/1997 ->5/12/1998" in the 'Term 1' box. And select Issue Date from Field 1 menu. Then hit the Search button.

4 Using date range

USPTO PATENT FULL-TEXT AND IMAGE DATABASE

Data current through October 24, 2006.

Query [Help]

Term 1: in Field 1:

Term 2: in Field 2:

Select years [Help]

Patents from 1790 through 1975 are searchable only by Issue Date, Patent Number, and CI. When searching for specific numbers in the Patent Number field, patent numbers must be seven characters in length.

Search results

Results of Search in US Patent Collection db for:
 ISD/11/1/1997->5/12/1998: 77440 patents.
 Hits 1 through 50 out of 77440

ISD/11/1/1997->5/12/1998

PAT. NO.	Title
1 RE35,795	T Method of making flowable alkaline thiosulfate/alkaline sulfate and the product thereof
2 RE35,794	T System for reducing delay for execution subsequent to correctly predicted branch instruction using fetch information stored with each block of instructions in cache
3 RE35,793	T Measurement and monitoring system
4 RE35,792	T Disk storage drive
5 RE35,791	T Printed sheet with integrally formed stamps
6 RE35,790	T System for drilling deviated boreholes
7 RE35,789	T Food processing machine
8 RE35,788	T Method of and arrangement for rehabilitating a ballast bed of a track
9 PP10,400	T Vinesca plant named Apollo
10 PP10,399	T Geranium plant named 'BFP-1328 Red'
11 PP10,398	T Geranium plant named 'BFP-1328'
12 PP10,397	T Geranium plant named 'BFP-1328 Dark Purple'
13 PP10,396	T Geranium plant named 'Pink Passion'
14 PP10,395	T Geranium plant named 'Purple Rose'
15 PP10,394	T Phalaenopsis orchid plant named 'Sylvia'
16 PP10,393	T Dendrobium orchid plant named 'Aposva'

d. Phrase Searching in Quick Search Page

A group of words enclosed in quotation marks(“ ”) can be treated as a single search term, which is called Phrase Searching.

If you were searching for the phrase Vacuum Cleaner than vacuum or cleaner, you would use “Vacuum Cleaner”.

USPTO PATENT FULL-TEXT AND IMAGE DATABASE

Home Quick Advanced Pat. Num Help View Cart

Data current through October 24, 2006.

Query [Help]
 Term 1: "Vacuum Cleaner" in Field 1: All Fields
 AND
 Term 2: in Field 2: All Fields

Select years [Help]
 1976 to present (All-text)

Search click Reset

Patents from 1790 through 1975 are searchable only by issue Date, Patent Number, and Cu. When searching for specific numbers in the Patent Number field, patent numbers must be seven characters in length.

Search results

Searching US Patent Collection...

Results of Search in US Patent Collection db for:
 "Vacuum Cleaner": 6184 patents.
 Hits 1 through 50 out of 6184

Next 50 Hits

Jump To

Refine Search "Vacuum Cleaner"

PAT. NO.	Title
1 0530.889	Vacuum cleaner
2 7,127,100	System and method for analyzing an image
3 7,125,842	Anti-fungal compounds and methods of use
4 7,124,867	Edge cleaning system for vacuum cleaner
5 0530.577	Vacuum cleaner handle portion
6 0530.477	Electric vacuum cleaner
7 0530.470	Body of electric vacuum cleaner
8 0530.399	Body of electric vacuum cleaner
9 0530.467	Vacuum cleaner
10 0530.466	Vacuum cleaner
11 0530.464	Vacuum cleaner
12 7,122,089	Method of making a textile laminate having pile-like surface
13 7,121,024	Creamer steam iron
14 7,120,985	Battery-powered vacuum cleaner and method of cooling battery-powered vacuum cleaner
15 7,120,954	Base floor grater for vacuum cleaner
16 7,118,997	Filter stop for a vacuum cleaner

e. Right truncation

You can use a wildcard (\$) on the right side of a search term to retrieve words that begin with a certain string. Wildcards are different between the search systems.

If you are searching in a specific field the string must be at least 3 characters in length, and at least 4 characters in length in case of not searching in a specific field. You may want to truncate on a longer string to reduce the number of hits retrieved.

LEARNING POINT 4: Strategic use of patent information

3. In licensing

Analyzing patent information will provide the necessary technical and business information regarding the target technology and its value before entering into a licensing negotiation.

(1) 'Licensing in' technology

While preparing to 'license in' technology, analyzing patent information will be useful in answering the following questions:

- a. Is the technology in question in the public domain in the target market due to its non-protection, expiration, non-payment of maintenance fees or invalidation of the patent in a court proceeding?
- b. Is there a possibility of being sued for infringement?
- c. Is there technology overvalued or undervalued when compared with other related or alternate technologies?

(2) 'Licensing out' technology

While preparing to 'license out' technology, patent information could clarify:

- a. Who could be prospective licensees in the marketplace?
- b. How valuable is the technology?
- c. Is it a core technology in your business, which if licensed out might become an obstacle to continue to practice this technology?

(3) 'Cross-licensing'

While preparing to 'cross-license', patent analysis:

- a. Plays a role in comparing the patent portfolios of the two companies and in identifying key patents, so that it can help to decide who should pay whom and how much.
- b. Gives a picture of the life cycle of the target technology and key technologies, in the field, which will help in the decision making process.

Learn more: Time-series map

Through patent analysis, you can also build a time-series map. This map shows the flow of technology, which can help you identify the key technology. It may be drawn by collecting, layering and displaying pertinent patents in a time series.

For example, if you plan to enter into a new business manufacturing IC cards, then you need to identify the area(s) in which IC cards will be used in the industry and main manufacturers and core technologies in the field.

Fig. 6 Time-series map

```
graph LR; A[A technology] --> A1[A1 patent]; A1 --> A2[A2 patent]; A2 --> B[B technology]; B --> B1[B1 patent]; A2 --> A2_out[ ]; B1 --> B1_out[ ]
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4. In Mergers & Acquisitions

If a company wishes to acquire a specific technology along with other complimentary assets and has no idea where to obtain it, then it first needs to identify all the companies with relevant patents and related assets.

A patent search help to identify all of the patents related to the area of interest. Once one or more potential target technologies/companies are identified, then the company can undertake additional patent analysis to narrow down its choices to decide which of the companies is the best merger or acquisition target.

Once a company identifies a target company, patent analysis can also address additional issues such as:

- (3) Is the target's technology as good as it is claimed to be?
- (4) Is the company priced fairly?
- (5) Who are the key inventors and will they stay with the merged or acquired company?

Learn more: A real life example

As part of a broad strategic plan to fill gaps in a company's technology base, a large high-tech company acquired a small specialty business.

Soon after completing the acquisition, the acquiring company discovered that R&D capabilities of the acquired company were quite limited, and certainly not consistent with the perception that it had strong technological capabilities. Its technological capability was dependent on one key researcher who was not to come along as a part of the deal. He was transferred to the parent company before the sale was completed.

If patent analysis had been done before proceeding with the acquisition, the company would have been able to identify the key researcher and take timely appropriate measures to retain him.

3. In Research & Development

In order to enter into a new business or to develop a new product, a company should be able to size up the relevant technology field and accurately forecast the market needs.

Patent analysis makes it possible to find out the flow of technology from elementary technologies along with the expansion of those technologies, the trend of technological change, the life cycle of a technology (whether in the growth, development, maturity or decline phase), problems and solutions in the development of a particular technology, competitors' technologies and solutions to cope with possible problems.

Knowing the life cycle of a technology makes it possible to judge the timing of development policy and focus on certain development themes.

It can also prevent an infringement from occurring, which would save a huge amount in litigation expenses and compensation for damages.

4. In Human Resource Management

It has been repeatedly shown that a small number of highly prolific inventors drive technological development and a much larger number of researchers produce only one or two patents in any laboratory or company.

Patent analysis, such as a co-inventor brain map, can show the key inventors who are vitally important for the future of the company.

Such brain maps can identify not only star inventors within a company, but also key inventors in other companies, which is a useful analysis for headhunting and in developing an effective M&A strategy.

QUIZ

Q1. Identify the incorrect statement:

- 1) Patent information includes not only bibliographic data but technical and legal data extracted from patent documents.
- 2) Patent documents include not only the content of published patent documents but also bibliographic and other information concerning patents for inventions, inventors' certificates, utility certificates and utility models.
- 3) Patent documents published worldwide are classified by national classification systems according to the requirement of examiners and searchers concerned.
- 4) Patent family means patent documents published in different countries but relating to the same invention.

Answer : 3)

Most patent offices use the International Patent Classification (IPC) for search and easy retrieval of relevant patent documents. Some patent offices have their own regional or national classification systems to suit their own particular requirements. However, ever since the Strasbourg Agreement entered into force in 1975, most countries worldwide have adopted the IPC, while some of these countries are continuing to use in parallel their own national/regional classification systems.

Q 2. Identify the incorrect statement:

- 1) Patent information is generally the most up to date source of technical information available anywhere in the world.
- 2) Ideally, an appropriate patent search should be conducted at each of the key stages of the product development cycle.

- 3) A freedom-to-operate search should be undertaken before marketing a product so as to minimize the risk of a patent infringement suit.
- 4) A search made on free patent databases generally gives a complete answer to all the relevant questions.

Answer : 4)

It is generally wrong to assume that a search made on free patent databases is comprehensive and can give a complete answer to all the relevant questions. A do-it-yourself search is a good starting point but a comprehensive patent search is usually a job for an expert, who will know which sources to refer to and how best to manipulate them to retrieve the data needed.

Q 3. Identify the incorrect statement:

- 1) Patent information helps a company in preparing for patent licensing negotiations.
- 2) By using patent information it is possible to identify the key inventors in a particular technological area.
- 3) Patent information helps a company to avoid wasting its resources on R&D programs when everything has already been invented in that particular technological area.
- 4) A company could monitor activities of real and potential competitors.

Answer : 3)

By using patent information a company would become familiar with the technological developments in a particular field up to a particular date. This prevents them from wasting their limited resources on reinventing the wheel. At the same time, it enables the company to invest its resources on improving on the state of the art by developing a new or improved product or process.

MODULE

07

Technology Licensing
in a Strategic Partnership

MODULE 07. Technology Licensing in a Strategic Partnership

OUTLINE

LEARNING POINT 1: The basic concept of license

1. What is a license
2. Why license

LEARNING POINT 2: Preparing to license

2. Due diligence
 - (2) The basic concept of due diligence
 - (3) The information needed for due diligence
2. Valuation of technology
 - (2) Limitation in valuation of technology
 - (3) Methods to value technology

LEARNING POINT 3: Negotiating a license agreement

2. Negotiation process
3. Guidelines of negotiation
 - (2) The golden guidelines of negotiation
 - (3) What should be avoided and what should be encouraged

LEARNING POINT 4: Overview of license agreement

2. Characteristics of a license agreement
3. Issues in a license agreement

LEARNING POINT 5: Managing a license agreement

2. Implementing and managing the agreement
3. Termination and post termination issues

INTRODUCTION

Companies are always under pressure to keep improving their products; otherwise, they run the risk of losing out to competitors. A company has to keep investing in and making efforts to develop new and better products. However, it is quite possible that someone else has already developed the new or improved technology that it needs.

Without putting in all that effort to develop that same technology, why not use the technology developed by someone else, if that were possible? The context of this module is "Technology Licensing in a Strategic Partnership. "

LEARNING OBJECTIVES

2. You understand the basic of licensing.
3. You learn about the importance of preparing and negotiating a license agreement.
4. You understand the basics of a license agreement.
5. You learn to manage a licensing relationship as well as termination and post termination issues.

LEARNING POINT 1: The basic concept of license

A technology protected by intellectual property (IP) right(s) may be commercially exploited either by the owner directly for making a new or improved product, by transferring it by sale or gift or by licensing it to another.

2. What is a license?

(1) Definition of a license

To license is where an owner of an IP right (licensor) simply gives another (licensee) permission to use that right, while the owner continues to retain the ownership of that right.

(2) License agreement

The permission is usually granted through a written contract where the purpose, territory and the period of time is defined and agreed to by the parties. This written contract is called a “license agreement.”

(3) Types of license

a. Licensing-in

An enterprise obtains technology from an external source. One may license-in as when an enterprise obtains technology from an external source, such as a university, a research laboratory, another company or an individual.

b. Licensing-out

An enterprise transfers its technology to another for the manufacturing of products, for the further development of the technology or to expand its current operations.

c. Cross-licensing

A cross-licensing occurs when two parties licenses their technologies to each other.

More References 1-1: The distinction between a license and an assignment

1. In a license agreement, a licensor continues to own the IP rights but only gives the licensee the permission to use a defined right over one or more IP rights.
2. In an assignment (sale) the ownership of the rights in the IP is transferred from the assignor (seller) to the assignee (buyer). This is a one-time transaction for an agreed price.
3. The distinction between a license and an assignment is also important for determining who has the rights to sue for infringement of a licensed patent and for taxation.

(2) Infringement: Who can sue for infringement?

As a general rule, only an assignee of a patent can sue for infringement and not a patent licensee. But, in many cases, an exclusive licensee is given the right to sue.

(3) Taxation

a. License

A. Licensee: Royalties paid under a license are deductible business expenses of the licensee.

B. Licensor: Royalties paid under a license comprise ordinary income for the licensor.

b. Assignment

- Assignee: Payments made for an assignment are capitalized by the assignee.

- Assignor: Payments received for an assignment may be taxed as capital gains to the assignor.

2. Why license?

A business would consider licensing under these situations:

(1) Essential component of certain business relationships

Many business relationships involve or crucially depend on licensing of IP rights such as when it hires a consultant or collaborates with one or more enterprises which may be vendors or subcontractors for manufacturing a part or component, or when it collaborates on research & development or when it forms a strategic alliance or a joint venture.

(2) Non-core IP for adding a revenue stream

A business may consider allowing another to exploit its IP rights (license) for a fee where it does not or no longer uses a particular IP right in its core business.

(3) Core IP for adding a revenue stream

Even when an IP right is integral to the core business of an enterprise, the enterprise may choose to concentrate on one geographic market (e.g., Germany or Russia) or one field of use (e.g., the market for two-stroke engines) and license to others with greater capacity or interest in other markets or fields of use.

(4) Core business is licensing

Some companies enter into business with the sole objective of creating and licensing IP rights, without ever manufacturing a product; for them the IP is the product.

(5) Forcing an infringer to become a licensee (stick license)

In a situation where the IP rights are being infringed, the owner of those rights may choose to litigate, which could be expensive, with an uncertain outcome and be protracted. A more realistic option may be to put pressure on such infringers to take a license, for example, by threatening to litigate.

(6) Licensing to each other (cross licensing)

In closely-related industries where rivals employ very similar technologies

they often infringe upon each other's IP rights. In such situations cross-licensing is relied upon to avoid expensive tit-for-tat litigation.

(7) Patent pools

Where manufacturers don't themselves hold any patents relevant to the products they manufacture and they are held by several patent holders they may license the patents in a group. That is, the patents are put in a patent pool by the patent holders and they are licensed in a package directly by the owners or by an entity established for that purpose. Such arrangements are particularly relevant in the context of *patent thickets* where a single product may involve a maze of patents making its manufacture impossible without dealing with an array of patent holders.

(8) Complying with standards

Sometimes, it is necessary to obtain licenses for protected technologies, which are essential for meeting the requirements of a *de facto* industry standard, or a *de jure* national or international technical standard that has been set by a standard-setting organization. When a license is needed for meeting the requirements of an industry standard, it is generally available on either a royalty-free basis or is negotiated on the basis of what are called fair, reasonable and non-discriminatory (RAND or FRAND) terms.

LEARNING POINT 2: Preparing to license

1. Due diligence

Due diligence is a necessary first step before entering into any kind of business transaction and is particularly important when considering a long-term business relationship, such as an IP license agreement. It must be done both by the licensor as well as the licensee.

(2) The basic concept of due diligence

- a. Due diligence is a term used for a number of concepts involving the performance of an investigation of a business or person.
- b. Due diligence is a necessary first step before entering into any kind of business transaction and is particularly important when considering a long-term business relationship, such as an IP license agreement. It must be done both by the licensor as well as the licensee.
- c. Given the constraints of time and resources, a due diligence exercise should seek to gather and analyze as much information as possible on the potential licensor or licensee, the market, the technology and other similar technologies available in the market or being developed, the legal and business environment (local or international, as required) and any other information that would enable the potential licensor or licensee to be better informed.
- d. The purpose of due diligence exercise is to assess potential risks and benefits, identify risks that may undermine the value of technology, and develop strategies for overcoming any such risks. This exercise should naturally be conducted in a legitimate manner, within the bounds of relevant laws.

(2) Information needed for due diligence

In a due diligence exercise, the exact information to be verified would vary, depending on the facts and circumstances of a given situation. However, in relation to patents, the basic information to be sought is as follows:

- b. The ownership of the patents; checks whether all the inventors have duly signed an assignment document assigning their rights in the patents to the assignee.

- c. The validity and adequacy of the scope of the rights offered; a patent attorney has to analyze the claims of the patents or patent applications being licensed to determine the scope of the claims.
- d. Have all proper procedures been followed to ensure effective patent protection in all the relevant markets?
- e. The right to use the subject matter; are there any third parties claiming rights over the patents in question.
- f. Before licensing patents or patent applications from universities, a potential licensee should carefully consider the impact of government rights in the patented inventions.
- g. Can the patented technology perform as per expectations; for example, will it serve to reduce costs, improve performance or deliver other identifiable benefits?
- h. What is the economic or strategic value, in that, to what extent do the patents in question fit into and further the business objectives of the two parties to the proposed license agreement?
- i. Will other IP rights have to be acquired (for example, a blocking patent of a third party) to fully implement the patented technology in question; is there freedom to operate (FTO) or would one or more licenses to other patents be required too?
- j. It is important to develop alternatives to a negotiated deal. Consider strengths of the technology sought to be licensed versus competing technologies available in the market. Most parties, if they are aware that the other party “must” do the deal or the other party has limited alternatives, will seek to extract far more favorable terms.

More References 2-1: The sources of information for licensing

For obtaining information for licensing a range of sources can be usefully consulted. These will include the following:

1. Publicly available information of publicly-traded companies
2. Online and subscription database services for the relevant market or products
3. Trade publications
4. Trade and technology exhibitions, fairs and shows
5. Technology licensing offices of research-based universities and publicly-funded research and development institutions
6. Relevant government ministries, departments and agencies
7. Professional and business magazines, journals and publications concerning the relevant products and markets
8. Professional and business associations
9. Technology exchange
10. Innovation centers
11. Patent information services

Depending on the particular field of interest and circumstances, a company will consult one or more of the above sources of information.

2. Valuation of technology

(1) Limitation in valuation of technology

- a. Traditionally, the valuation of assets reflected their historical cost, as adjusted by depreciation, and their value was directly related to their expected profitability.

- b. In recent years, however, this link is no longer automatically applicable as “new economy” companies generate earning seemingly unrelated to their fixed assets. This is happening, primarily, because of their use of intangible assets.
- c. An owner of an asset, a potential purchaser, a financier and an insurer, will each value a fixed asset differently, even though it is an identifiable asset which is measured in a common currency. It thus follows that valuing intangible assets is even more difficult, and even more subjective.

(2) Methods to value technology

a. Cost Approach

The licensor’s investment in the technology is represented by the costs associated with developing, protecting and commercializing the technology. These expenditures are known to the licensor and can reasonably be estimated by the potential licensee. They represent the base, or minimum that the licensor will want to recover, with interest.

b. Income Approach

The income approach to valuation involves making educated guesses (or more precise measures, if possible) as to the amount of income that the new technology will generate. The issue then is to determine the respective shares the parties should each have of the benefits and find a royalty formula that matches that calculation.

c. Market Approach

Sellers and purchasers of real estate and used cars know, or can readily ascertain, what other parties have agreed for similar houses and cars in the same area. It follows that comparable market transactions are a convenient and useful way of determining the value of an asset

in anticipation of negotiating a purchase or sale. The same approach is beneficial in licensing, though perhaps not as useful as desired because there will seldom be identical technology and intellectual property packages.

LEARNING POINT 3: Negotiating a license agreement

4. Negotiation process

Negotiating a technology licensing agreement is the art of reaching an agreement where the licensor grants and the licensee acquires the right to use the licensor's technology on specified terms and conditions. The objective is to set the basis for a mutually satisfactory and ultimately rewarding future relationship. That is, a "win-win" outcome as opposed to a "win-lose" outcome (which, in effect, is a "lose-lose" outcome). The negotiation process involves four distinct phases: preparing, discussing, proposing and bargaining.

(4) The Preparation Phase

This is probably the most important, in that it is almost impossible to recover from, or overcome, inadequate preparation. Preparation includes all that has been discussed thus far.

- d. Having gone through a preliminary analysis of its business objectives and decided that a licensing agreement would further that objective.
- e. Establishing a team consisting of experts from the financial, legal and technical areas. Their respective roles and responsibilities must be clarified and each team member must understand the overall objective.
- f. Preparing a summary of the key commercial issues to be covered in the license agreement and the position of the party on each such issue.

(2) The Discussion Phase

This is usually characterized by the licensor promoting the merits and the opportunities offered by its technology, and the potential licensee reviewing documentation and information under a confidentiality agreement.

(3) The Proposing Phase

In the proposing phase, the parties are exploring the possible relationship and the principal commercial terms. Key questions are being asked, assumptions tested, strategic objectives established and boundaries identified.

(4) The Bargaining Phase

In the bargaining phase, the question might become, "If we grant you an exclusive worldwide license, then you have to double the sum payable on signing the agreement", to which the licensee might respond "If we double the down-payment, then one half is to be credited against the future royalties payable to you on our sales of Licensed Products."

More References 3-1: NDA & LOI

4. NDA (Non-disclosure Agreements)

- (1) It is important to keep in mind that it is not sufficient to enter a licensing negotiation based on pure trust as on many occasions the negotiations do not necessarily result in a final license agreement.
- (2) To safeguard confidential information disclosed during negotiations it is standard practice to enter into a mutual non-disclosure agreement, also referred to as a confidentiality or secrecy agreement.

5. LOI (Letter of Intent)

- (4) A Letter of Intent(LOI) or Memorandum of Understanding(MOU) is an interim agreement spelling out the understanding of the parties before a formal license agreement is signed.

- (5) Such an agreement generally states that the parties have embarked on and intend to continue negotiations with the intention of concluding a license agreement.

In the absence of clear intention to that effect it would be for the courts of a particular country to determine, subject to the laws of that country, whether such an agreement is legally binding on the parties or not.

2. The Guidelines of Negotiation

Guidelines are the principles that aim to provide the negotiator with a practical framework for the conduct of a negotiation. They are not rules, which if transgressed must mean the negotiation is at an end. Rather, the failure to follow or achieve a guideline is intended to alert the negotiator to the need to have an understanding of the current position and perhaps the need for additional or different actions.

(4) The golden guidelines of negotiation

d. Aim for a “win-win” outcome

License agreements invariably involve long-term technical, commercial and personal relationships and, it follows, that for the agreement to be successful all parties need to be satisfied with the agreement reached. A dissatisfied party will often go to extreme lengths to redress a perceived injustice and, when this happens, the grief, for one if not both parties, is likely to well exceed all the previous benefits. After all, all agreement is not inevitable and, in such a case, the “win-win” outcome would have been for the parties not to reach an agreement.

e. Generate variables

Generating variables or creating different options is another guideline for successful negotiation. A variety of different solutions are possible in solving a problem or in arriving at a mutually acceptable agreement. All

of the key terms of the agreement are variables, and a little imagination can create additional variables, all of which can be creatively managed so as to arrive at an outcome that makes the parties feel that they have achieved an agreement that meets their respective business objectives.

f. If ... Then guideline

If Then guideline is otherwise known as the *Never Give Unless You Get* guideline. It is too easy for the inexperienced negotiator to agree to a proposal, and to then make a separate proposal – and be surprised when it is rejected. The negotiator has the power and the chance to explore and to link the issues and so achieve a better outcome. For example, “If we grant you an exclusive worldwide license, then you have to double the sum payable on signing the agreement.”

g. Establish the maximum (or best) position, and the minimum (or worst) position in respect of each issue.

This is part of preparing for the negotiation and identifying and ranking the issues of importance to oneself, as well as anticipating those likely to be important to the other. This does not automatically mean that, if in the negotiation a minimum position is not being achieved, the negotiator should discontinue negotiations. Rather, being a guideline and not a rule, it requires the negotiator to be satisfied that, in agreeing to a position that is less than the minimum, there are good reasons. Perhaps new information has changed the minimum position which was established prior to the meeting. Or, on another issue the negotiator has achieved an outcome better than the maximum, and so overall and on balance the negotiator can accept a less than optimal outcome on this issue. Or this issue is not that important to the negotiator, and/or it can be justified because it is the last issue and overall agreement can now be reached.

h. Aim high, but protect your credibility

This is relevant to the previous guideline, and reflects that it is possible to accept a lesser position whereas the converse (to increase an offer) is usually impossible. If the official price for a new Mercedes Benz is \$50,000 and a customer offers \$35,000, it would be only a moment before the sales person was talking to the next customer. It is all very well to aim high, but not so high that the offer is not realistic and, in fact, jeopardizes, if not destroys, the customer's credibility. Rather, the customer might agree to pay \$45,000, and then proceed to negotiate for the first year's services to be free, for the warranty to be extended by a year, for the radio/CD system to be upgraded, for a tow bar to be installed, and so on.

i. Trade variables that are cheap for you but valuable to the other party

This is the best outcome. The independent engineer's report on the second hand-Mercedes being purchased shows that repairs of up to \$10,000 may be necessary. The customer might offer to proceed with the purchase if the repairs are carried out, and the garage might agree to do this because the mechanics have little work on hand and spare parts are few and are at wholesale prices. This is the best variable of all – it is valuable to one party but is cheap for the other party.

j. Everything is negotiable and you don't get the deal you deserve; that you get the deal you negotiate. Nothing is cast in stone.

(2) What should be avoided and what should be encouraged

d. The followings are to be avoided:

- Loss of credibility
- Surprises
- Arguing or threatening
- Underestimating the opponent

- Haggling
 - Negotiating against yourself
 - Lack of preparation
- e. The followings are encouraged:
- Rationality: Even if they are acting emotionally, balance emotions with reason
 - Understanding: Even if they misunderstand us, try to understand them
 - Communication: Even if they are not listening, consult them before deciding on matters that affect them
 - Reliability: Even if they are trying to deceive us, neither trust them nor deceive them but be reliable
 - Non-coercive modes of influence: Even if they are trying to coerce us, neither yield to that coercion nor try to coerce them but be open to persuasion and try to persuade them
 - Acceptance: Even if they reject us and our concerns as unworthy of their consideration, accept them as worthy of our consideration, care about them and be open to learning from them.

LEARNING POINT 4: Overview of a license agreement

4. Characteristics of a license agreement

(1) A license agreement is the outcome of a business strategy and the start of a business relationship

The parties clearly understand each other's business objectives, and appreciate that there is a mutual need to ensure that the licensing agreement is successful.

(2) A license agreement is a contract.

Meeting the legal requirements for a binding and enforceable contract is essential.

- (3) Absence of any prohibition in a license agreement cannot be interpreted as a permission to do the omitted act.**

Don't assume that a license is transferable or assignable, sub-licensable or encompasses a specific right/scope, simply because it does not expressly restrict the same.

- (4) While licensing depends on the existence of proprietary rights there may be other important related issues.**

Those related issues may be covered by other kinds of agreements such as agreements dealing with research and development, consulting and training, investment, manufacturing, distribution, sales, and so on.

More References 4-1: The factors that influence the royalty rate

The following factors influence the royalty rate that may be established:

1. Market Size
2. Competition
3. Product Development Stage
4. Patent Strength
5. Unique vs. Common Technology
6. Manufacturing Rights
7. Exclusive vs. Non-Exclusive
8. Worldwide vs. Regional Licenses
9. Deal Structure

10. Prevailing royalty rates in that particular industry technology (ballpark range)

2. Issues in a license agreement

(1) Main issues in a license agreement

a. Identification of the Parties

The Agreement should be made between the party who has the right to grant the license and the party who will be exercising that license. It must be clear as to who the licensor and who the licensee is. Additional details, including the addresses for each of the parties, the jurisdiction of incorporation (for corporate entities) and the effective date of the Agreement, may also be included in the identification section of the Agreement.

b. Definitions

The definition clause is the dictionary for the Agreement. As far as possible, each definition should be self-contained. There are three minimum terms that must be defined in a patent license.

- Licensed patents, any confidential information and know how, meaning “those that are subject of a license”
- Licensed products, meaning “those that may be produced, used, offered for sale, sold or imported by the licensee under the terms of the license”
- Territory, meaning the geographical territory “where the product may be used”

c. Subject Matter

It is crucial to be clear about the scope of a license, as the license grant forms the heart of the deal. It must be clear as to what is being licensed. For example, “the licensed subject matter” shall mean:

- Intellectual property rights: The “Intellectual Property Rights” shall

mean all rights owned or otherwise held by Company X in, to or under patents or patent applications, whether domestic or foreign, and all divisions, continuations and continuation-in-part of any patent applications, and all patents which may issue from any patent applications, and all reissues, reexaminations, and extensions of patents, relating to Company X's technology.

- Technology rights: The "Technology Rights" shall mean all rights owned or otherwise controlled by Company X in, to or under technical information, know how, process, procedure, composition, device, method, formula, protocol, technique, software, design, drawing or data relating to the technology of Company X, which are not covered by Intellectual Property Rights, but which are necessary for the practice and full utilization of inventions at any time disclosed or claimed under the Intellectual Property Rights.

d. Extent and scope of the licensed rights

A license could be exclusive, sole or non-exclusive. A non-exclusive license, where the licensee is one of several licensees with whom the licensor has entered into agreements for the use and exploitation of the technology, is the preferred option of most licensors. By spreading the risks and rewards to several licensees, the licensor does not depend on the success of one licensee. He can maintain a better control over the technology and, by virtue of the fact that several licensees are using and exploiting the technology in several markets and perhaps in a variety of products, the technology is given a chance to further evolve and develop.

e. Field of use

The Licensee may be limited to distributing and selling the technology to a particular class of customers (such as airlines), commercializing the technology within a specific industry or industry segment (such as

computer software), or using it for a particular purpose (such as research or incorporation into some other product or process).

f. Territory

The license may be limited to a particular geographic territory. For example, worldwide rights could be granted, or the rights could be for specific countries or even specific parts of countries (such as a state or region of a country). What is appropriate will be influenced by what the licensor is able to offer in terms of rights and what the licensee is able to take advantage of in a particular territory or region.

g. Technical assistance

Depending on the kind of technology being transferred, there is often an agreement to provide the licensee with technical assistance in the form of documentation, data and expertise.

h. License fees

Payments to the licensor for the acquisition and use of technology are usually classified as lump sums and royalties, and many agreements contain both types of payment.

- Lump sums: Lump sums are payable on the happening of a particular event. There may be one sum only, payable on signing the agreement. If there were no further payments, this would be considered a fully-paid-up license.
- Royalties: Royalties are regular payments to the licensor, which reflect the use of the technology by the licensee. As they link use with a monetary amount they can be a good reflection of the value of the technology to the licensee and, accordingly, royalties are the most usual type of payment in license agreements.

(2) The other issues in a license agreement

d. Effective date

Where foreign government approvals are required for a license agreement, the licensor's position will be protected by a condition precedent providing that the license will not come into effect until the license is approved in the form agreed between the parties. In this case, the licensor will not have lost his bargaining position in the event that changes are required in the license agreement, which favor the licensee.

e. Recitals

Properly drafted recitals are very useful for explaining the context and background of the license, and may assist in the interpretation of the Agreement.

f. Sub-license

The licensee, particularly an exclusive licensee, may wish to have the right to grant sub-licenses in its territory. If so, this needs to be specifically negotiated and stated in the agreement. The sub-license issues may include:

- To whom Licensee may sub-license
- What rights are sub-licensable and where
- What level of control Licensor wants over sub-licensees
- Whether prior written approval of the Licensor is required for granting of any sub-licenses, the choice of a sub-license, and the conditions upon which such sub-licenses may be granted; for example, the extent to which the terms of the sub-license should accord with those of the head license agreement.
- Whether or not the sub-license comes to an end when the head license is terminated or expires for any reason.

g. Improvements

When dealing with improvements, also known as versions, enhancements, and new models, it is important to define what is an

improvement and, therefore, covered by the license, and what is a new technology or new intellectual property.

h. Most favored licensee

Where the license is non exclusive, the licensee may wish to include in the agreement a most favored licensee clause which in effect ensures that in the event that the licensor grants another licensee terms that are more favorable, then, by virtue of this clause, the present licensee would be entitled to terms as favorable as had been granted to the other licensee. In granting such a provision there should be clarity as to what is meant by "more favorable terms."

i. Best efforts

A paragraph stating that the licensee will use its best efforts to exploit the licensed technology is common in both exclusive and non-exclusive licenses. It would be desirable for the parties to agree on the meaning of best efforts, and what may constitute best efforts in terms of specific steps to be taken by the licensee.

j. Transferability of rights

A provision typically used in a license agreement states that the license shall ensure to the benefit of and be binding on the successors, assigns or other legal representatives of the parties. It is to be noted, however, that use of language of this type is uncertain in terms of its effect and could perhaps be in conflict with other provisions of the agreement that attempt to specify the assignability or lack of assignability of the license granted and the rights pertaining thereto.

k. Royalty stacking

The concept of royalty stacking arises from the risk that multiple patents may affect a single product. Royalty stacking arises when, in order to take a product to market, the developer of the product takes licenses

from all of the owners of the patents which affect the final product. When the royalty payments are added together, the licensee may find itself with a non-profitable product. Hence it has become quite usual for licensees to insist on including anti-stacking provisions in license agreements. A typical anti-stacking provision states that the royalty rate payable to the licensor will be reduced if the licensee is obliged to enter into licenses with third parties in relation to the product. Such a provision can lead to a disparity between the expectations of the licensor as to the royalty it will receive from the licensee and the actual royalty the licensee is contractually obliged to pay.

i. Restrictions on payments under local law

The issue of exchange control restrictions and other local regulations that may affect the transfer of funds and therefore the remittance of royalties should be addressed by the parties and suitable solution be found at the time of the negotiation.

m. Inflation

The issue of inflation is effectively provided for where the royalty rate is expressed as a percentage of sales. Where, however, the royalty is a specific amount in a specified currency, it is usually reviewed regularly, say, annually or every two years, and adjusted, if the national law so permits, in accordance with an agreed consumer, manufacturing or other local index. Adjustments can also be made to lump sums payable on the happening of an event where, in particular, the occurrence of the event is distant and uncertain.

n. Financial administration

The financial administration provisions of the license agreement include obligations on the licensee to keep accounts and records, to report the results and pay the consequent royalties. The royalty reports, which

might be required once, twice, or four times a year, might need to be certified by the licensee's chief financial officer or auditor.

o. Infringement

When all or part of the technology has the benefit of patent or other intellectual property protection, it is important to provide for what will happen if there is any infringement. There are two situations where infringement could occur.

- The first infringement situation

The first is where a third party is using the protected technology but does not have a license. Here the licensee is facing competition and is likely to be at a financial disadvantage as the infringing competitor is not paying royalties.

- The second infringement situation

The second infringement situation is where a third party claims that the licensee is using technology in respect of which the third party has obtained protection. In this situation, the licensee may be faced with the prospect of not being able to continue to use all or some part of the licensed technology.

p. Product liability

Product liability can have important financial consequences. The risk is that there might be injury or damage, to person or property, arising from a licensed product that is defective. The need is to identify the source of a potential defect and to assign responsibility accordingly.

q. Representations and warranties

Representations and warranties are statements or assurances about a matter or position relevant to the license agreement. One important distinction is that a representation is not usually a term of the agreement, whereas a warranty is a contractual term, the breach of

which could entitle the injured party to terminate the agreement and sue for damages. A warranty is an assurance or promise in a contract, the breach of which may give rise to a claim for damages. It is essentially a minor term of a contract. Typical examples of representations and warranties include:

- The licensor owns the technology and has the right and authority to grant the license.
- The licensed material (e.g. text, software, and/or documentation) is original and has not been copied.
- To the best of the licensor's knowledge and belief, the licensed patents are valid and are not being infringed by any third party.

r. Licensor and Licensee obligations

The licensor is expected to take, for example, in a patent and know how agreement, all necessary action to transfer the technology and assist the licensee to commence commercial production. Similarly, the licensee is expected to successfully manufacture and market the licensed product in the territory.

s. Taxes

It should be made clear in the Agreement who is to absorb and pay relevant taxes, including any applicable sales, customs and excise, or withholding taxes. Withholding taxes are of particular concern in international licensing arrangements. If one party is obligated to assume responsibility for withholding taxes, the Agreement usually includes a provision which requires the other party to provide reasonable assistance in respect of any possible refunds.

t. Waiver

A waiver clause in a license agreement means that a party does not lose its rights because it does not enforce those rights. Thus, if a licensor was entitled to give notice of termination due to nonpayment of

royalties, but overlooked or ignored the breach, the licensor could still give notice in respect of another breach of that obligation. The waiver clause in effect prevents the application of the legal concept of estoppels, i.e. the earlier tolerance or oversight does not prevent the licensor from subsequently enforcing its rights.

u. Force Majeure

A force majeure clause in a license agreement addresses intervening circumstances beyond the control of a party, which prevent that party from carrying out its obligations. War, strikes and fire are the types of occurrences envisaged, and the benefit of the clause is that the time to carry out an obligation may be delayed until the *force majeure* circumstance ceases or is removed.

v. Anti-competitive practices

When entering into a licensing agreement it is important to keep in mind that if certain business practices are incorporated, the agreement may, depending on the national laws of the country or countries in question, be considered illegal if tantamount to being anti-competitive. Some examples of practices that may be considered unlawful depending on the particular circumstances of the agreement are obliging a licensee to accept certain products or services in addition to the proprietary technology (tie-in, bundling), prohibiting the licensee from dealing with certain enterprises, attempting to fix the prices of products incorporating the licensed technology, territorial restrictions, cross licensing and patent pooling.

w. Government regulations

When considering entering into a licensing agreement with a foreign partner it is important to verify the existence of various government regulations that may affect it. For example, most countries would at least require the registration of a licensing agreement with the relevant

authorities in that country but there may, in addition, be an approval process that must be followed for engaging in that kind of activity in that country. In the licensor's own country there may be regulations that restrict or make conditional the dealing with certain technologies for security or other reasons.

x. Disputes

When negotiating the license agreement, parties should be aware that disputes might arise and provide means for resolving them. Built in flexibility for amendments should provide means for resolution at first resort. Failing which, mechanisms for dispute resolution must be provided for. When drafting dispute resolution clauses, parties can draw from several options. Traditionally, parties have often agreed to resolve disputes through litigation in a specified domestic court. Increasingly, however, parties opt for alternative dispute resolution (ADR) procedures, such as arbitration and mediation, or mediation followed by arbitration.

<Advantages of ADR procedures>

- *A single procedure.* Through ADR procedures, the parties can agree to resolve in a single procedure a dispute involving intellectual property rights that are protected in a number of different countries, thereby avoiding the expense and complexity of multi-jurisdictional litigation, and the risk of inconsistent results.
- *Party autonomy.* Because of its private nature, ADR procedures afford parties the opportunity to exercise greater control over the way their dispute is resolved than would be the case in court litigation.
- *Neutrality.* ADR procedures can be neutral to the law, language and institutional culture of the parties, thereby avoiding any home court advantage that one of the parties may enjoy in court-based litigation, where familiarity with the applicable law and local

processes can offer significant strategic advantages.

- *Confidentiality.* ADR proceedings are private. Accordingly, the parties can agree to keep the proceedings and any results confidential. This allows them to focus on the merits of the dispute without concern about its public impact, and may be of special importance where commercial reputations and trade secrets are involved.
- *Finality and enforceability of arbitral awards.* Unlike court decisions, which can generally be contested through one or more rounds of litigation, arbitral awards are not normally subject to appeal.

y. Indemnities

Generally, an indemnity is an undertaking by one person to meet a specific potential legal liability of another. An indemnity entitles the person indemnified to a payment if the event giving rise to the indemnity takes place. Unlike a claim for breach of warranty there is no need for the indemnified party to establish that he has suffered loss.

z. Release

If a license is being entered into as part of a settlement to infringement proceedings, it may be necessary to include in the grant section a release against infringement that was alleged to occur prior to the date of the Agreement. Although most properly drafted grant provisions will make it clear that the rights granted to the licensee are conditional upon the licensee's compliance with its obligations under the Agreement, this is particularly important in a release-type grant if the licensor intends to retain the right to recover damages for the past infringements upon any future breach by the licensee of the Agreement. This would likely only apply where specific consideration for the release has not been provided.

More References 4-2: Confidential Information

YeraCAM and Tolmnex each agree that all information contained in documents marked "confidential" which are received by one party from the other party, and all information indicated to be Confidential Information in Sections X and Y (collectively, "Confidential Information") shall be received in strict confidence, used only for the express purposes set for in this Agreement, and not disclosed by the recipient party (except as required by law or court order), its agents or employees without the prior written consent of the other party, unless such Confidential Information.

1. was in the public domain at the time of disclosure;
2. later became part of the public domain through no act or omission of the recipient party, its employees, agents, or permitted successors or assigns;
3. was lawfully disclosed to the recipient party by a third party having no obligation to the disclosing party;
4. was already known by the recipient party at the time of disclosure;
5. was independently developed by the recipient without use of or access to such Confidential Information; or
6. is required to be disclosed to a government agency.

LEARNING POINT 5: Managing a license agreement

4. Implementing and managing the agreement

A license agreement is a continuous relationship over a fairly long period of time between two parties working towards a mutually-rewarding outcome. To ensure that the relationship is rewarding to the parties, it is important that they deliver on their respective obligations arising from the agreement.

It is important that all of these obligations and how they may be implemented are clearly specified in sufficient detail in the agreement. They imply both for the licensor and licensee costs in terms of time spent and additional human resources deployed. Doing so is indispensable for the survival, smooth running and sustainability of the agreement.

Here are several issues in managing the relationship in a license agreement:

(4) Technical assistance

Technical assistance can greatly reduce the time required by the licensee to move the licensed technology into production. The obvious benefits are that the licensee generates income more quickly and the licensor earns royalties much sooner. While technical assistance benefits both parties, the licensor will need to have the resources available to fulfill this responsibility.

Common elements of the technical assistance include the following:

d. Plant visits and training

The licensee obtains rights to on-the-spot training of its technical engineers, in the licensor's facilities, that are developing or using the licensed process and/or making and selling the licensed product.

e. Direct assistance

The licensee may obtain the right to have site assistance (within the licensed territory) from the licensor's technical personnel to solve problems related to commercial use of the licensed process and/or the making and selling of the licensed product.

f. Consultation

This is the right of the licensee to contact the licensor by mail, telefax, telex or telephone through representatives appointed by each party.

(2) Tangible items

The agreement should specify how the licensor will bill and collect for any machinery sold to the licensee, and for such items as operating manuals, blueprints, drawings, manufacturing specifications, test equipments or devices supplied by licensor to licensee. Such charges may apply for quantities that exceed an agreed-on level to be exchanged initially for no added payment.

(3) Reporting

Licensees are typically obligated to send a royalty statement or report with each royalty payment, although if royalties are payable on a relatively frequent basis, reports may only be required at less burdensome intervals, such as quarterly or annually. A licensor may also request that the reports be certified by the licensor's auditors or chief financial officer.

The reporting clause usually requires the licensee to keep and maintain complete and accurate financial and production records relating to all products manufactured, sold, used, returned and invoiced (if such products relate to the licensed intellectual property) in sufficient detail to allow the licensee to verify such records. Ancillary to the reporting obligation is a right of the licensor to inspect and audit these records, or allow an independent third party to perform an inspection and audit.

(4) Auditing

Most audit clauses limit the licensor in the exercise of its rights to a specified frequency (e.g. once per year) and only upon reasonable notice and during regular working hours. The cost of any audits are normally borne by the licensor, unless it finds a discrepancy between the royalty amounts actually paid to it and the amounts it should have received, in which case the licensee is required to pay for the audit. Licensors should make it a policy to conduct periodic audits as is their right, as regular audits keep a licensee honest by removing temptations.

2. Termination and post termination issues

(1) License agreements come to an end in the following two ways:

- a. The period of the agreement expires or an event agreed to trigger termination occurs. For example, the term may be fixed as ten years from the effective date and on the completion of the ten years the agreement ends. Or, it expires on the occurrence of an event such as the expiration of the last of the licensed patents or, sooner, if it is determined by a court or administrative agency of competent jurisdiction that the last of the patents within the “Licensed Subject Matter” is invalid or unenforceable.
- b. The agreement is terminated by one party before the agreement has expired. The right to terminate the agreement is usually set out in detail and relate to a failure to perform in some way amounting to a breach of a condition of the agreement, for example, failure to make payments, bankruptcy or insolvency.

(2) After expiration or termination of the agreement

- a. Know-how or confidential information

When an agreement expires or is terminated by the licensor, will the licensee return or continue to use the know-how or confidential information? For example, “Return of Confidential Information: Upon termination of this Agreement by Company B pursuant to Section [*], but not upon expiration or termination of this Agreement by Company A pursuant to Section [*], Company A shall promptly return to Company B any Confidential Information of Company B received from Company B prior to such termination, and Company A shall no longer be entitled to use any such Confidential Information for any purpose.”

- b. Sub-license

Are there any sub-licenses or other rights that have been granted to third parties and do they continue after termination?

c. Other clauses

For example, maintaining confidentiality, continuing rights to use the other party's improvements, access to records for a particular period.

For example, "Protection of Confidential Information: Each party's obligations of confidentiality, non-use and non-disclosure set forth in Section[*] shall be fulfilled by using at least the same degree of care with the other party's Confidential Information as it uses to protect its own Confidential Information. This obligation shall continue in full force and effect during the term of this Agreement and thereafter for a period of three (3) years."

QUIZ

Q1. Identify the incorrect statement:

- 1) A license transfers the right to use IP rights but not its ownership.
- 2) For some businesses licensing of their IP is their only business.
- 3) A due diligence exercise should only be conducted by a licensor.
- 4) You don't get the deal you deserve, you get the deal you negotiate.

Answer : 3)

A due diligence exercise which is the performance of an investigation prior to entering into a licensing relationship (and may well be useful to do from time to time even during the relationship) should be done by both parties. It is important that both parties are well informed of their partner, the business, the industry, competing products and technologies etc. The better informed the parties are, the better the agreement and finally the relationship would be.

Q2. Identify the incorrect statement:

- 1) If something has not been prohibited in the agreement it means it is allowed.
- 2) A licensee could be granted the right to use the IP rights of the licensor worldwide.
- 3) A licensee could be obliged to make a report with every royalty payment.
- 4) Even after an agreement has terminated there may be certain clauses that remain valid.

Answer : 1)

It cannot be assumed that simply because something is not prohibited in the agreement that it is allowed.

Q3. Identify the incorrect statement:

- 1) A business should not license the intellectual property which is integral to its business.
- 2) A business could grant a license to an infringer.
- 3) A business may enter into license agreements during its interactions with contractors, consultants and in the context of a strategic alliance.
- 4) A business may usefully license its IP rights that it does not use.

Answer : 1)

A business may license its IP which is integral to its business by licensing its use in another territory or field of use.

MODULE

08

IP in the Digital Economy

MODULE 08. IP in the Digital Economy

OUTLINE

LEARNING POINT 1: IP & e-commerce

1. Impact of e-commerce on IP
2. Challenges raised by the impact of e-commerce
 - (4) IP protection in software
 - (5) Online content distribution
 - (6) Domain name issues

LEARNING POINT 2: Creating website

4. Outsourcing website development
5. Topics to be included in the agreement
6. Using material owned by others
7. Other mindful issues

LEARNING POINT 3: Choosing domain name

4. Basics of domain name
5. How to choose domain name
 - (4) Choosing the Top-level domain
 - (5) Choosing a good Second-level domain

3. Practical consideration
4. UDRP: One of the cybersquatting resolutions

LEARNING POINT 4: Protecting your website

4. What elements of your website can be protected
5. How to protect your website
6. Taking actions against violations

INTRODUCTION

With the dramatic rise in Internet usage for e-commerce the proper use of the tools of the IP system has become crucial for the orderly development of the digital economy.

In the online business environment, protection of IP assets plays a crucial role in the success of an e-commerce company.

LEARNING OBJECTIVES

4. You understand the impact of digital environment and the challenges posed by it for managing IP rights.
5. You know what goes into a good website development agreement
6. You can select a legally safe and practically useful domain name
7. You know how to protect a website and its content, as well as how to avoid legal problems in the online environment.

LEARNING POINT 1: IP & e-commerce

1. Impact of e-commerce on IP

With the dramatic rise in Internet use, especially for e-commerce and information and knowledge exchange, the IP system becomes crucial for the orderly development of the digital society.

(4) IP and online trade of products and services

com enterprises and e-commerce businesses, more than other business systems, often involve selling products and services that are based on IP and its licensing. Music, pictures, photos, software, designs, training modules, systems, etc. can all be traded through new digital information technologies, such as the Internet. In this case, IP is the main component of value in the transaction. IP is important because the things of value that are traded on the Internet must be protected, using technological security systems and IP laws, or else they can be stolen or pirated and whole businesses can be destroyed.

(5) IP and digital technologies

IP is involved in making new digital technologies work. The systems that allow the Internet to function - software, networks, designs, chips, routers and switches, the user interface, and so on - are forms of IP and often protected by IP rights.

(6) IP and online branding

For e-commerce businesses, commercial branding is even more important than for traditional businesses. This is because customers are naturally cautious in an online environment, traders may be remotely located and there is little or no physical contact to reassure purchasers of your business' financial security and good faith. Trademarks are therefore an essential part of e-commerce business, because branding, customer

recognition and goodwill are protected by trademarks and unfair competition law. But identity on the Internet goes beyond the trademark system, because of the role played by the Internet domain name system, which facilitates users' ability to navigate to your business site. Domain names, because they are easy to remember, also perform a function as business identifiers, in a manner similar to trademarks.

(7) IP and business value

Businesses related to new digital technologies usually hold great deal of their value in IP. The valuation of such businesses will be affected by whether they have protected their IP. Many technology companies have patent portfolios and trademarks that enhance the value of their business.

(8) Relevance of patent licensing in e-commerce

So many different technologies are required to create a product that companies often outsource the development of some components of products, or share technologies through licensing agreement. Therefore web-based businesses often depend on patent licensing. The economics of new technologies depends on companies working together to share, through licensing, the opportunities and risks of business.

2. Challenges raised by the impact of e-commerce

(4) IP protection in software

Different types of IP rights may protect different components of a computer program.

a. Copyright

One of the most used forms to protect components of a computer program

b. Patent

In some countries, inventions relating to software may also be protected

by patents, while in others; software is explicitly excluded from patent protection.

c. Trade Secret

Many companies protect the source code of computer software as a trade secret.

d. Industrial Designs

Certain features created by computer software, icons on a computer screen, may be protected in some countries as industrial designs.

(5) Online contents distribution

d. Illegal downloads

In recent years, there has been much publicity about the unlawful distribution of IP-protected music, films, art, photos, scripts, and software ("content") on the Internet. These unauthorized downloads often violate national laws of copyright. Because of the ease with which digital files can be downloaded, unauthorized copying of content has been a major problem causing the loss of millions of dollars in revenue for the owners of these rights.

e. As an e-commerce business, keep in mind

- to protect your IP rights on the Internet;
- never to distribute or permit downloads of third party content that does not belong to your company; and
- put in place programs to make sure that your employees understand your company policies in this regard.

More Reference 1-1: Napster case (US)

The first case to put an international spotlight on unauthorized downloading of music files. The case, which resulted in the court issuing a permanent injunction preventing Napster from operating its file sharing system, was a

“contributory infringement” case because the claim was that Napster facilitated illegal copying by users of the system, not that Napster copied the files itself. Other cases will continue to test the law in this area, and there may be different issues and different results in different jurisdictions,

Lesson of Napster:

1. Make sure you have a clear policy against unauthorized copying of files, or any actions that encourage or facilitate such copying;
2. Make sure that your employees do not gain access to or keep in their possession or on their systems any unauthorized copies of software or other content.;
3. Make sure that all your employees know about the company's policies against misuse of IP; and
4. Senior management should be responsible for reviewing company business practices on a regular basis to make sure that the policy is being followed. It is wise to assess situations in which a policy violation is found, to see if disciplinary action should be taken.

Your company should have a system of prevention, education and monitoring to make sure that employees are not knowingly or unknowingly using illegal copies of software.

How about Grokster of 2005? (the most recent P2P case in the US)

Held: One who distributes device with object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps...is liable...
Inducement Doctrine: Court found that inducement doctrine applies to a copyright infringement case.

(3) Domain name issues

Surprisingly, many companies fail to make an informed choice when selecting their Internet addresses, or domain name. A domain name may be available and registerable, but that does not necessarily make it legally safe or practically useful. For example, the chosen domain name may conflict with the trademark rights or personality rights of someone else. Before establishing presence on the Internet for obtaining worldwide visibility, you

need to understand the domain name system as such and its interface with the trademark system.

More Reference 1-2: IP concerns about international transaction in the digital economy

One of the most remarkable characteristics of the digital economy is that it occurs globally. IP may be used and licensed in many countries simultaneously.

The global characteristic of Web-based businesses affects IP in a number of ways.

1. Jurisdiction

- (1) It is unclear which courts will have jurisdiction over disputes relating to e-commerce and IP. Also, laws affecting IP vary from country to country so levels of protection may be different;
- (2) The court may or may not take jurisdiction (legal control) over the case, depending on many factors such as connection of the case with the country. Another difficult issue is what law to apply, especially if the laws of the countries of the parties involved are different.

2. Enforcement

International aspect involved in e-commerce further triggers enforcement issues.

- (1) It makes it difficult to find the infringer and enforce IP rights that are violated on the Internet;
- (2) Even if the lawsuit succeeds, it could be difficult to enforce a judgment in another country.

LEARNING POINT 2: Creating website

4. Outsourcing website development

If your website has been developed by your employees who are employed for this purpose, then, in most countries, you (as the employer) would own the

copyright over the website, unless you otherwise agreed with your employees. However, for a small business, this is rarely the case.

Most companies outsource the creation of their website design and/or content to an outside contractor, and assume they own IP rights in it because they paid for the work. Beware! You may be surprised to find out that you do not own the IP rights in what has been created for you. Independent contractors (contrary to employees) usually own IP rights in the works they create – even if you have paid for it -, unless otherwise agreed in a written contract.

In practice, this means that the independent web developer will usually own copyright and other IP rights in the website, as well as in the design and elements contributing to that design (such as colors, gifs, jpegs, setup, hyperlinks, text coding). Without a valid, written agreement transferring to you all these rights, you may end up owning nothing except perhaps a non-exclusive license to use your own site.

Example: You have your site created by a freelance web designer. There is no agreement transferring all rights to you, so the copyright belongs to the web designer (according to the national laws). A year later, you want to refresh your site and make some changes to its presentation. Under most copyright laws, you will need authorization from the web designer, and may be required to pay an additional fee, to substantially update your website. It is better to enter into a clear, written agreement with the website developer that spells out who owns IP rights in each element of the site.

5. Topics to be included in the agreement

When negotiating an agreement for the actual creation of your website with the website developer, you should have a clear long-term vision of the market for

your product or service. A good agreement should give you all the rights you need for the foreseeable future use of your website. Your web development agreement should at least deal with the following issues:

(4) Scopes of work

Specify exactly what will be developed.

- Will the developer be responsible not only for writing the computer code, but also for the design and appearance?
- Will he register a domain name?
- Will he provide consulting services?
- Is he responsible for the maintenance and updating of your site?

(2) Ownership of material

Specify the ownership details of each element of your website. Make sure that you receive ownership rights or a license that is broad enough so that you can use the website design and software how and where you want after the web development agreement is terminated. Consider the following:

- Who owns IP rights in the different components of the website that are created by the website developer (e.g. computer code, graphics, text, website design, digital files used for creating the site, etc.)? As this is primarily a price issue, you should carefully contemplate what you need to own versus what you only need a license to use. National laws may impose mandatory requirements for transferring the IP rights; make sure your agreement complies with such conditions.
- Who owns IP rights in material that you have provided to the website developer for use on the website? It is normally the case that you will supply trademarks, product logos, literary information and other subject matter that is owned by you. It would be prudent to include a list of website elements wherein your ownership of such material is clearly confirmed.

- What can you do with the elements in which the website designer owns IP rights? Do you have the right to sublicense, make changes, etc.? Remember that you will need permission from the original website developer to modify your website. If it is important to you that you can update the website yourself, or have it updated by another website developer, then you should make sure you obtain a perpetual license to make modifications to the site.
- Who is responsible for getting permission to use third party material like text, trademarks or software in which someone other than you or the website developer owns IP rights?
- Who owns IP rights in the software that displays your website and runs the components of your website? If the developer (or a third party) retains ownership and you only receive a license that is specific to your intended use, make sure the scope of the license is broad enough to switch developers and operating systems, to expand the use of the sites to additional business entities, etc.
- Can the website developer use the design as a model for other websites? Can he license the software or any other things built into your site to your competitors?

(3) Warranties

Each party should warrant that it owns or has permission to use any material that it provides for the website and that the contents do not violate any law or regulation.

(4) Maintenance and update

Maintenance of the site includes such things as changes, updates, troubleshooting or repairs. You should detail the level of maintenance and the price terms. Will the developer update your site and if so, how often? What kind of endeavor is he responsible for? What kind of actions will he take when the service interrupts or breaks down?

(5) Confidentiality

While divulging confidential information about your business or allowing access to your facilities, you should include a confidentiality or non-disclosure clause in your web development agreement. This can protect you against unauthorized disclosure of your trade secrets.

(6) Liability

Who will bear the responsibility for the links to other sites, the designation of keywords and metatags? Who will be liable in the event of any trademark or other claims?

(7) Others

Your website development agreement will also need to include clauses related to fees and payment, timetable for delivery of the website, indemnification, disclaimers, limitation of liability, jurisdiction and applicable law, etc.

More Reference 2-1: Checklist for drafting a development agreement		
When you draft a web development agreement, check the following issues.		
Item	Content	Mark
Scope of Work	1 Will the developer be responsible not only for writing the computer code, but also for the design and appearance?	
	2 Will he register a domain name?	
	3 Will he provide consulting service?	
	4 Is he responsible for the maintenance and updating of your site?	
Ownership of material	5 Who owns IP rights in the different components of the website that are created by the website developer? (e.g. computer code, graphics, text, website design, digital files used for creating the site, etc.)	
	6 Who owns IP rights in material that you have provided to the website developer for use on the website?	

	7	What can you do with the elements in which the website designer owns IP rights? Do you have the right to sublicense, make changes, etc.?	
	8	Who is responsible for getting permission to use third party material like text, trademarks or software in which someone other than you or the website developer owns IP rights?	
	9	Who owns IP rights in the software that displays your website and runs the components of your website?	
	10	Can the website developer use the design as a model for other websites? Can he license the software or any other things built into your site to your competitors?	
Warranties	11	Does each party warrant that it owns or has permission to use any material that it provides for the website?	
	12	Does each party warrant that the website contents do not violate any law or regulation?	
Maintenance & Update	13	Will the developer update your site and if so, how often?	
	14	What kind of endeavor is he responsible for?	
	15	What kind of actions will he take when the service interrupts or breaks down?	
Confidentiality	16	Is there a confidentiality or non-disclosure clause in your web development agreement?	
Liability	17	Who will bear the responsibility for the links to other sites, the designation of keywords and metatags?	
	18	Who will be liable in the event of any trademark or other claims?	
Others	19	Fees and payment	
	20	Timetable for delivery of the website	
	21	Indemnification, Disclaimers, Limitation of liability	
	22	Jurisdiction and applicable law	

3. Using material owned by others

Current technology makes it fairly easy to use material created by others - film and television clips, music, graphics, photographs, software, text, etc. – in your website. The technical ease of using and copying these works does not give you the legal right to do so. Using material without getting permission - either by obtaining an "assignment" or a "license" - can have dire consequences.

(4) Technical Tools

If you are using a search engine or other technical Internet tool for your website, make sure that you have a written license agreement, and get it checked over by a lawyer before you sign it and before any design or installation of the site begins.

(5) Software

Packaged software is often licensed to you upon purchase. The terms and conditions of the license (called "shrink-wrap licenses") are often contained in the package, which can be returned if you do not agree with them. By opening the package you are deemed to have accepted the terms of the agreement. Alternatively, the licensing agreement is sometimes included inside the packaged software or on the webpage from which you can install or download the software. Each time an end user install or download the software, he/she may have an option to agree to the license terms. A "click-wrap license" requires an end user to manifest his or her assent by clicking an "ok" button on a dialog box or pop-up window. A user manifests a rejection by clicking cancel or leaving. In all cases, you should check the licensing agreement to find out what you may and may not do with the software you have bought. In addition, there may be exceptions in your national copyright law that allow you to make certain uses of the software without permission, such as making interoperable products, correcting errors, testing security and making a backup copy.

(6) Copyrighted works

d. General

If you want to put up any written material, photos, videos, music, logos, art work, cartoons, original databases, training manuals, drawings, etc. on your website that was created by someone else and whose copyright has not expired, you usually need a written permission from the copyright owner. Even if you use just a part of a copyrighted work, you will generally need authorization. Note also that material on the Internet or stored on web servers is protected by copyright in the same way as works published through any other means. Just the fact that you obtain material from the Internet does not mean that you can download or reproduce it freely.

e. Collective management organization

Finding the copyright owner and obtaining all necessary licenses is not always an easy task. The best way is probably to see if the work in question is registered in the repertoire of the relevant collective management organization or clearinghouse, which considerably simplifies the process of obtaining licenses.

f. Moral rights

In most countries, when you use a copyrighted work in your website, you also have the legal obligation to respect the moral rights of the author. You must make sure that:

- The author's name appears on the work; and
- The work is not used or changed in a way that would tend to damage the author's honor or reputation.

d. Photographs

Special care should be taken when using photographs on your website. In addition to the authorization of the copyright owner of the photograph

(usually the photographer), you may also need separate permission to use the subject matter depicted in the photograph. For example, if the photograph is of a person, you may need the permission of the person depicted in the photograph to use his/her likeness; for a photograph of a copyrighted artwork, you will need clearance of the artist; and for photographs of buildings, you may need, in certain jurisdictions, clearance from the architect.

e. Public domain material

Given the somewhat laborious task of tracking down copyright owners and negotiating licenses, website developers and businesses that create their own website often use material that is in the public domain. There are numerous institutions (libraries, national archives, collective management organizations) and online portals that have databases with public domain works.

There are also excellent portals that offer online licenses for different types of works. Some artists and companies even release their artwork, photos, backgrounds, wallpapers, banners, logos and other material as free for certain uses. Such material is often called clipart, freeware, shareware, royalty-free work or copyright-free work. However, do not assume that you can distribute or copy freeware without limitation. Read the applicable license agreements first to see what uses can be made of these works.

(4) Trademark

Many websites contain discussions of products and services of other companies. There is usually nothing wrong with identifying competitors' products on your website by using their trademarks. However, you should avoid using a trademark in a way that might cause confusion among consumers as to the source or sponsorship of the webpage. Such use

might well constitute trademark infringement or an act of unfair competition. Some Internet practices may raise trademark issues, such as metatagging, linking & framing, and using trademarks in domain names. You should be careful to check the law that applies to your business on this issue and to ensure that you have permission to show trademarks owned by other companies, if the law requires it.

(5) Other's likeness

In many countries, the name, face, image or voice of an individual are protected by publicity and privacy rights. The area of protection is regulated differently in various national legal systems. Before using such elements on your website, it would be advisable to check the applicable laws and to request permission, if needed.

(6) Other mindful issues

d. Linking

- General

Hyperlinks to other websites are a useful service to your customer, but in many countries there is no clear law on when and how you can use links. In most cases, links are completely legal and no permission is needed from the linked site to include a link. However, some types of links can create legal liability:

Links that lead web users to sites containing illegal content (a pirated copy of a song, perhaps, or an unlawful software program) may subject you to legal liability.

Links that comprise a company's logo (for example, using the Nike logo) may violate copyright, trademark or unfair competition laws. It makes sense to get permission for them.

- Deep link

Deep links mean links that go straight to a specific page other than a website's home page. For example, instead of linking to the home

page of a newspaper, a deep link might take the user directly to a newspaper article within that site. Deep linking is generally not allowed if it is a way of bypassing a subscription or payment mechanism, or if it is expressly forbidden by the site itself. It is necessary in such cases to obtain permission.

- Framing

It means that you divide your webpage into separate framed regions and display the contents of someone else's site within a frame at your site. The difference with normal linking is that the user is linked to another website in such a way that it is not obvious that what he is viewing is from another website. Inlining or mirroring occurs when you incorporate (or "inline") a graphic file from another website into your own website. For example, a user at your website can, without leaving your site, view a picture featured on another site. Framing and inlining are controversial practices, because they can create the impression that the information belongs to the website doing the framing or inlining. Always get written permission before doing this.

e. Metatagging

Metatags are keywords or phrases embedded in a website's HTML code, which are invisible to the visitors of the website but are read by some search engines. In theory, metatags allow website developers to provide information making search engines more efficient. However, instead of using terms that properly describe the site, some website developers place the names of competing companies in their metatags. For example, a small chocolate shop may bury the famous trademark "Godiva" in a metatag. Then, anyone searching for "Godiva" would be directed to the chocolate shop's site. This kind of deceptive use of another company's trademark in a metatag may constitute unfair competition or trademark infringement.

f. Personal information treatment

- Privacy policy

If your website collects personally identifying consumer information, such as names, addresses, e-mail addresses, gender and professions, be sure you protect the privacy of such information. National Data Protection or Privacy laws may put limits and obligations on the collection, use and disclosure of personal information. You need to have a clear privacy policy on your site, and train and supervise all employees with access to such information.

g. Terms and Conditions/ disclaimers

- Terms and Conditions

If you sell products or services on your website, or allow users to download software, you may have specific agreements posted on your site that contain warranty information or disclaimers, limits on your liability and other significant terms. Generally, for a person to be bound by the terms of an agreement, he must indicate in some way that he agrees to the terms. If you wish for terms in your online licenses and other agreements to be enforced, your website must be structured so that the agreement terms are reasonably apparent and users have the opportunity to review and agree to the terms, or to disagree and opt out, before proceeding through the site. Additionally, there should be a mechanism for users to indicate their assent.

- Notices and Disclaimers

Notices and disclaimers (A disclaimer is a statement waiving liability for a potentially unauthorized activity or denying an endorsement for or from another site.) are rarely a cure-all for legal claims, but if a notice or disclaimer is prominently displayed and clearly written, it may limit or even prevent your liability. Your notices and disclaimers should be tailored to fit the specifics of your website. For instance, if your website posts reviews of tennis rackets and offers links to resellers,

you might post a disclaimer in a visible place on your site stating “If this site provides links to other sites, the owner of this site is not liable for any information on or practices of the linked sites, nor does a link indicate any association with or endorsement by the linked site to this site.”

<Practical tips>

The best practice is to have the agreement appear on the screen as the first step of the ordering or downloading process. The user should be required to scroll through to the bottom of the agreement and click an “I accept” button before he can access to the site. This scrolling through and clicking assent process will help ensure that your agreement is an enforceable “click-wrap” agreement.

h. Other issues

It would be prudent to consult Internet lawyer to make sure your web site complies with the applicable laws especially on the following issues.

- Marketing and advertising online

If you place advertising on your site, what issues should your online advertising agreement cover? Are there any specific laws and regulations you must comply with?

Are your marketing practices legal? For example, comparative advertising, unsolicited e-mails and bonus or discount schemes are forbidden in some countries.

- Infringing material take down

Immediately remove infringing material - If someone complains about an unauthorized use related to your website, you should remove that material (or disable the link to that material) pending resolution of the dispute. Continuing to use infringing material after being notified may aggravate the claim and increase the chances of your being found liable (and increase the amount of damages you may have to pay). In some countries, you are required to adopt pertinent take down policies.

LEARNING POINT 3: Choosing domain name

1. Basics of domain name

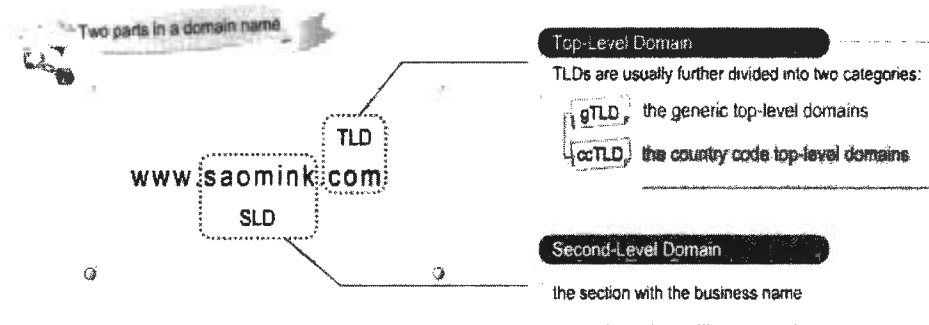
(1) Introduction

Every computer connected to the Internet must have a unique address, which is a rather complicated string of numbers called the IP (Internet Protocol) address. While computers readily understand such naming conventions, human users prefer an easier method of identification. The Domain Name System (DNS) was created to meet this need. It essentially has a database to link these numerical addresses on a one-to-one basis with unique mnemonic alphanumeric equivalents called Internet Domain Names.

(2) Two Parts in Domain Name

- a. At the highest level is the top-level domain (TLD),
- b. The section with the business name is called the second-level domain (SLD).

TLDs are usually further divided into two categories: the generic top-level domains (gTLDs) and the country code top-level domains (ccTLDs). Domain names may be registered in either a gTLD or in a ccTLD.



2. How to choose domain name

(4) Choosing the Top-level domain

Some gTLDs are open, in the sense that there are no restrictions on who can register under them. These are .com, .info, .net and .org. For most profit-making businesses, offering goods or services on the Internet .com ("com" stands for commercial) is invariably the gTLD of choice. The .net gTLD is reserved for computer networks, but tends to be used for computer and Internet services as well. In principle, .org is for non-profit organizations, but it is sometimes used by profit-making businesses. Other gTLDs are restricted, in the sense that only entities meeting certain criteria may be registered under them, for example .int (for international organizations).

You may register a domain name under a ccTLD, which corresponds to a country, territory, or other geographic location and bears a two-letter country code, for example .kr for the Republic of Korea (for registration services: <http://www.nic.or.kr/>). The rules and policies for acquiring domain names in the ccTLDs vary significantly from country to country. You should take a careful look at the terms and conditions under which a registrar is offering ccTLD registration services. (For more information about registering under a ccTLD, including a complete database of designated ccTLDs and registrars/managers, visit <http://www.iana.org/cctld/cctld.htm>.)

Functionally, however, there is no distinction between the gTLDs and the ccTLDs. Even if ccTLDs are related to a physical space indicated by the national suffix, they generally provide exactly the same worldwide Internet access as gTLDs. For example, a user based in Australia can access the web page of a Korean SME with the .kr suffix and purchase products.

(5) Choosing a good Second-level domain

A good domain name should enable customers to find easily your business website on the Internet. What is a good domain name and how does one

create it? The following basic suggestions may help you:

- a. Select a domain name that is the same as or similar to your company's business or product name. A domain that is directly linked to your business or products will be easier to remember. If you own a known trademark, then using it as, or in a second level domain is a wise choice.
- b. Choose a second-level domain that is distinctive of your business or products. Such a domain name may be more easily protected under trademark law.
- c. Never choose a domain name that is the trademark of another company. In most countries registration of another's trademark as a domain name is considered to be a violation of trademark rights. Various databases, such as the WIPO Trademark Database Portal (<http://arbiter.wipo.int/trademark/index.html>) may help in determining if a second-level domain being considered is a registered trademark.
- d. Avoid domain names that include controversial words such as geographical terms (e.g. Champagne, Beaujolais), names of famous people, names of generic drugs, names of international organizations, and trade names (e.g. name of another person's business).
- e. Suffix: Of all the TLDs, *.com* is generally considered to be the most valuable. It is the best known category around the world and the most sought after. Nevertheless, if you are a small company and you have a national market in mind, you may prefer a national TLD.
- f. Short domain names are generally the best as they are easier to pronounce, remember, spell, and type into a browser. Even though

domain names can have up to 67 characters, it is advisable to select shorter ones.

More Reference 3-1: Trademark Concerns

Trademark vs. Domain name

The trademark and domain name systems are very different, but in certain situations the two may overlap with unpredictable consequences. This problematic overlap occurs when a trade name or trademark is used in or as a part of a second-level domain name.

Two identical trademarks may happily coexist and be owned by different companies for identical products in separate geographical areas under relevant trademark laws. In fact, the trademark system allows for the registration and use of an identical or similar trademark for different classes of goods or services in the same geographical area or country, provided the trademark in question is not a well-known trademark.

Example: The trademark LIFESAVERS for confectionery is owned in Australia by Nestle and in the United States by Nabisco; the trademark PETERS is a trademark for ice-cream owned by one company in western Australia, and, in the rest of Australia, by other companies. In contrast, the domain name system allows the use of one name by only one registrant. Unlike trademarks, domain names create a monopoly right on a name or word, independent of the goods or services the website offers. As domain names are generally registered on a first-come, first served basis, the owner of a trademark may find that another person has registered a domain name that is the same as, or confusingly similar to his trademark.

Owners of certain types of trademarks may find that they are not permitted to register their trademarks as domain names in some countries because of applicable domain name policies that restrict registration of geographic names or generic/descriptive names. For example, in Spain, the trademark MADRID owned by a private publisher, and, in Italy, the trademark ROMA owned by an Italian newspaper, cannot be registered as ccTLDs (www.madrid.es; www.roma.it). Therefore, considering the diversity of naming rules amongst registrars of domain names, it is prudent to verify the rules of the national domain name registering authority before applying for registration of a domain name.

3. Practical considerations

(1) Registration of Domain Name

Anyone, whether an individual, organization, or company can register a domain name. Anyone who currently wants, or is thinking of acquiring, a distinctive, individual presence on the Internet should register a domain name.

Another important aspect of domain names is that their duration is unlimited. As with trademarks, you can hold a domain name for as long as you continue to pay the renewal or maintenance fee.

(2) Exposure of the Domain Name

Once you have registered a domain name, it is important to make the existence and content of your business' site visible so that you can attract visitors. A first step is to register the domain name with search engines, such as *www.yahoo.com*, *www.google.com*, and *www.altavista.com*. Search engines are specific tools that search web pages and documents all over the Internet for specified keywords or phrases and return a list of documents where the keywords or phrases can be found. Before registering the domain name with a search engine, one should understand the ranking system followed by different search engines.

4. UDRP : one of the Cybersquatting resolutions

(4) UDRP

In order to protect trademark owners and legitimate domain name registrants, the Internet Corporation for Assigned Names and Numbers (ICANN), WIPO and national Internet authorities have put in place certain measures for the protection of the interests of trademark owners. On October 24, 1999, the ICANN Board adopted a set of Rules for Uniform Domain Name Dispute Resolution Policy (the UDRP Rules) setting out the

procedures and other requirements for each stage of the dispute resolution administrative procedure. The procedure is administered by dispute resolution service providers accredited by ICANN. The WIPO Arbitration and Mediation Center (WIPO Center) is such a dispute resolution service provider.

(5) Abusive registration criteria

- d. The domain name is identical or confusingly similar to the trademark in question;
- e. The trademark owner has a right or a legitimate interest in the domain name, and the domain registrant does not; and
- f. The registrant registered or is using the domain in bad faith.

Many cases of cybersquatting (Cybersquatting means behavior that speculator registers others' trade name/mark with the intention of reselling it to them for huge amounts of money.) involving well-known marks and names have been solved by this procedure, in particular: *microsoft.org*, *juliaroberts.com*, and *sony.net*. Such procedure can be used solely for gTLDs and a few ccTLDs for which States have adopted the WIPO Uniform Dispute Resolution Policy. Other countries generally have other alternative dispute resolution procedures.

<p>More Reference 3-2: UDRP procedure</p> <ol style="list-style-type: none"> 1. The filing of a Complaint with an ICANN-accredited dispute resolution service provider chosen by the Complainant, such as the WIPO Center; 2. The filing of a Response by the person or entity against whom the Complaint was made; 3. The appointment by the chosen dispute resolution service provider of an Administrative Panel of one or three persons who will decide the dispute; 4. The issuance of the Administrative Panel's decision and the notification to all relevant parties; and
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5. The implementation of the Administrative Panel's decision by the registrar(s) concerned should there be a decision that the domain name(s) in question be cancelled or transferred.

LEARNING POINT 4: Protecting your website

1. What elements of your website can be protected

Before we talk about protection measures, let's first have a look at what parts of a website can be protected by intellectual property (IP) rights. In fact, there are many elements in a website that can be protected by different types of IP. For example:

- (4) New technologies systems, search engines or other technical Internet tools may be protected by patents or utility models;
- (5) Software can be protected by copyright and/or patents;
- (6) Your website design is likely to be protected by copyright;
- (7) Creative website content, such as written material, photographs, graphics, music and videos, may be protected by copyright;
- (8) Databases can be protected by copyright or by *sui generis* database laws;
- (9) Business names, logos, product names, domain names and other signs posted on your website may be protected as trademarks;
- (10) Computer-generated graphic symbols, screen displays, graphic user interfaces (GUIs) and even webpages may be protected by industrial design law;

(11) Hidden aspects of your website (such as confidential graphics, source code, object code, algorithms, programs or other technical descriptions, data flow charts, logic flow charts, user manuals, data structures, and database contents) can be protected by trade secret law.

Type of protection	Elements of your website				
Patent	New technological systems		search engines or other technical internet tools		
Copyright	Database	Website design	Website content		Software
sui generis Database law			<ul style="list-style-type: none"> • Written material • Photographs • Graphics • Music and videos 		
Trademark	Business names	Logos	Product name	Domain names	Other posted signs
Industrial design	Computer-generated, Graphic symbols	Screen displays	GUIs (Graphic User Interfaces)		Webpages
Trade secret	Graphic symbols	<ul style="list-style-type: none"> ▪ Confidential graphics ▪ Source code ▪ Object code ▪ Algorithms 	<ul style="list-style-type: none"> ▪ Data flow charts ▪ Logic flow charts ▪ User manuals ▪ Data structures 		<ul style="list-style-type: none"> ▪ Database contents ▪ Programs or other technical descriptions

2. How to protect your website

Some precautionary measures are necessary to protect a website from abusive use. These may include:

(0) Protecting your IP rights

You should develop appropriate strategies to protect your IP from an early stage so as not to lose your legal rights in them. You should:

- a. Register your trademarks;

- b. Register a domain name that is user-friendly and reflects the trademark, business name or character of your business. If your domain name can also be registered as a trademark, then it is advisable to do so. A trademark registration will:
 - strengthen your power to enforce your rights against anyone else who tries to use the name to market similar products and services; and
 - prevent someone else from registering the same name as a trademark.
- c. Register your website and copyright material with the national copyright office, in countries which provide this option;
- d. Think about patenting online business methods, in countries where such protection is available.

(2) Letting people know that the content is protected

Many people assume that material on websites can be used freely. Remind them of your IP rights.

- a. Mark your trademarks with the trademark symbol ®, TM, SM or equivalent symbols.
- b. Use a copyright notice (the symbol © or the word “Copyright” or abbreviation “Copr.”; the name of the copyright owner; and the year in which the work was first published) to alert the public that your copyright material is protected.
- c. Another option is to use watermarks that embed copyright information into the digital content itself. For example, a music file might be watermarked by using a few bits of some music samples to encode ownership information. Watermarks are useful to deter people from copying, and they can also aid in tracing a work online and proving theft.

- d. Give notice to the public that your website or business method is patented. You can, for example, list at the bottom of your home page the patent numbers that apply to the website, along with the "patent" or "pat." label.

(3) Letting people know what use they can make of the content

Insert a copyright statement on every page of your website that spells out your business' terms on use of the page. Viewers would at least know

- d. what they can do with the page (for example, whether or not, and on what conditions, they are allowed to create links to the site, download and print material from the site); and
- e. who to contact to get a copyright clearance in relation to any material on your site.

(4) Controlling access and use of your website content

You may use technological protection measures, so that only those visitors who accept certain conditions upon the use of the works and/or have paid for such use, can have access to the works published on your website. The following techniques are commonly used:

- a. Online agreements are frequently used to grant visitors only a limited license to use content available on or through your website.
- b. Encryption is a technique of enciphering and deciphering. Typically, software products, phonograms and audiovisual works may include encryption to safeguard them from unlicensed use. When a customer downloads a content file, a special software contacts a clearinghouse to arrange payment, decrypts the file, and assigns an individual "key" - such as a password - to the customer for viewing or listening to the content.

- c. Access control or conditional access systems. In its simplest form, such systems check the identity of the user, the identities of the content files, and the privileges (reading, altering, executing, etc.) that each user has for each file.
- d. Releasing only versions of insufficient quality for the suspected misuses. For instance, you can post images on your website with sufficient detail to determine whether they would be useful, for example, in an advertising layout, but with insufficient detail and quality to allow reproduction in a magazine.

(5) Detecting infringements of your website

To find infringements, you may take random snippets of text from your site and search for the snippets using search engines like Google and Alltheweb. If you have unique graphics on your website and want to find out if anyone else is using them, enter the file name of your graphic into <http://images.google.com>. There exist also various technologies that may help you to find violators. They include “spider programs” that search the Internet for copies of your pages or graphics and illegal use of your trademarks; and “fingerprints”, which are like hidden serial numbers which enable you to identify which customer broke his/her license agreement by supplying the property to other people.

3. Taking actions against violations

When you find out that someone is infringing your copyright or trademark on his website, you should take the following steps:

- (1) Make screen shots or prints of all relevant pages, and print the source code from the infringing website;

- (2) Be sure you can prove that your website content is original and that you have owned it for a longer period of time than the infringing website;
- (3) Send a cease and desist letter to the owner of the infringing website asking to take your material off their website. An IP lawyer may help you to draft such a letter;
- (4) If the owner does not respond, you may (i) send a notice of infringement to any search engine where the infringing site is listed and demand that they remove any links to the infringing site; and (ii) send a notice of infringement to the website hosting company or internet service provider (ISP) and demand that the infringing site be removed from the server where it is hosted.

More Reference 4-1: Patentability of Software in the USA

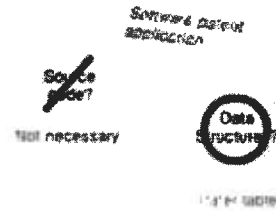
In the last decade or so, most developed countries have permitted patenting of software and computer implemented inventions, although to varying degrees. As a result, in many countries there has been a sudden surge of patent applications for protecting software, e-commerce and Internet technologies. Also, some recent court decisions in the United States of America have put to rest any doubts about patentability of business methods. In the U. S., this has triggered a flood of new patent applications in the areas of business management, finance and accounting, particularly for computerized methods for these types of functions. So, software developers and businesses in e-commerce, as well as providers of banking, financial and insurance services, are now at increased risk of inadvertent patent infringement.

In 1996, when the U.S. Patent Office issued guidelines for software patent applications, it represented a major new pro-patent step. Amongst other things, these guidelines clarified that software that demonstrably controls or configures some computer hardware is patentable, regardless of whether it includes significant mathematical processes.

Further, in the U. S. patent protection is available for data structures in combination with some form of computer readable memory. Furthermore, for software patents, the written description requirement is generally met by an

ordinary language description of the software functionality, that is, source code of the software does not require to be revealed in the patent application.

As a result, especially in the U.S., the range of subject matter excluded from the purview of patents has been narrowed down to include only a scientific principle, laws of nature, natural phenomenon, abstract idea or mental steps.

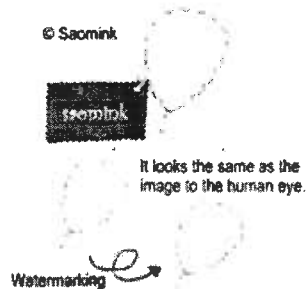


More Reference 4-2: Watermarking

Watermarking is a technique to insert copyright notices or other verification messages (in the form of a pattern of bits) into digital images, audio clips, video and documents that identifies the file's copyright information.

1. Types of watermark

- | | |
|-----------|---|
| Visible | <p>Overlaying a translucent visible image or notice on the primary image in a way that is difficult to remove</p> <p>For example</p> <ul style="list-style-type: none"> • a copyright symbol "©" • a logo or a seal |
| Invisible | <p>Inserting a hidden image or message which cannot be seen but which can be detected algorithmically</p> <p>For example</p> <ul style="list-style-type: none"> • Adding some bits to an image modifying only its least significant bits |



2. Watermarks are useful to

- (1) deter people from copying;
- (2) monitor the usage of the material
- (3) prove ownership of copyrighted material; and
- (4) trace a work online and prove theft

QUIZ

Q1. Identify the incorrect statement:

- 1) In most countries registration of another's trademark as a domain name is considered to be a violation of trademark rights.
- 2) You have to be a US company or resident to register a .com, .net or .org domain name.
- 3) Two companies can own and use the same trademark, but only one company can own a particular domain name. Domain names are unique.
- 4) Domain names are a substitute for IP addresses.

Answer : 2)

Anyone can register a domain name under any of the .com, .net or .org top domains. You don't have to be a US citizen or resident, and you don't have to be registering on behalf of a company either.

Q2. Identify the incorrect statement:

- 1) Cybersquatting is the pre-emptive registration of trademarks by third parties as domain names. Cybersquatters exploit the first-come, first-served nature of the domain name registration system to register names of trademarks, famous people or businesses with which they have no connection.
- 2) The Uniform Domain Name Dispute Resolution Policy (UDRP) is a mandatory administrative procedure for speedy, low-cost resolution of all domain names disputes.

- 3) There are no monetary damages applied in UDRP domain name disputes, and no injunctive relief is available. Under the UDRP the panelist can only decide to transfer or cancel the domain name(s), or deny the complaint.
- 4) The accredited domain name registrars - which have agreed to abide by the UDRP - implement a decision after a period of ten days, unless the decision is appealed in court in that time.

Answer : 2)

The UDRP established an administrative procedure for speedy, low-cost resolution of disputes between trademarks and domain names. However, the UDRP procedure can only be used in the following cases:

The UDRP applies only to the global top-level domains, to domain name ownership disputes that involve trademarks, in cases where there is bad faith registration and the panel decisions are mandatory in the sense that accredited registrars are bound to take the necessary steps to enforce a decision, such as transferring the name concerned. The parties, however, retain the option to take the dispute to a court of competent jurisdiction for independent resolution.

Q3. Identify the incorrect statement:

- 1) If you want to upload on your website works created by someone else and whose copyright has not expired, you usually need a written permission from the copyright owner.
- 2) If you want to post a photo of a painting on your website, then, in addition to the authorization of the copyright owner of the photograph (usually the photographer), you may also need separate permission from the painter to use the painting depicted in the photograph.

- 3) Websites that collect, use, handle or disclose personal information of its users, must comply with the national privacy laws of the country from which they are operating. Company websites may be required to establish privacy policies that disclose the nature of the personal information they collect and the use they make of this information.

- 4) If you commission a web developer to create a website for your company, then you own IP rights in the website, provided you pay a fair compensation for the work.

Answer : 4)

You do not always automatically own the IP rights in what has been created for you, even if you have paid for it.

Independent contractors (contrary to employees) usually own IP rights in the works they create, unless otherwise agreed in a written contract. In practice, this means that the independent web developer will usually own copyright and other IP rights in the website, as well as in the design and elements contributing to that design (such as colors, gifs, jpegs, setup, hyperlinks, text coding). Without a valid, written agreement transferring to you all these rights, you may end up owning nothing except perhaps a non-exclusive license to use your own site.

MODULE

09

IP and International Trade

MODULE 09. IP and International Trade

OUTLINE

LEARNING POINT 1: Importance of IP rights for exporters

1. Why intellectual property rights are important for exporters?
2. Some of the most common IP mistakes made by exporters

LEARNING POINT 2: Checking your freedom to operate

4. Trademark search
5. Patent search

LEARNING POINT 3: IP in international outsourcing

4. Introduction
5. Critical concerns in offshore outsourcing

LEARNING POINT 4: Protecting your intellectual property rights in export market

4. The national route
5. The regional route
6. The international route

INTRODUCTION

Some say the system of intellectual property may be used as a 'spear' or as a 'shield' in a highly competitive business environment. The importance of intellectual property is increasing steadily day by day, month by month, and year by year as thousands, perhaps tens of thousands, of new technologies are being developed, which are being used for improving or adding new features to existing products or creating absolutely new products. In this module, we are going to find out why intellectual property issues are important for exporters, what should be done to prevent IP problems and how to deal with them effectively and efficiently. When a company plans to export its products to another country, it is crucial to take timely and advance steps to protect its special features by different tools of the IP system in all the relevant export markets. This will strengthen the position of the exporting company in the export markets. However, failure to take preventive steps for protection of IP and for resolving any disputes regarding may lead to a great loss.

LEARNING OBJECTIVES

4. You understand why intellectual property is important for exporters.
5. You analyze some of the strategies that may be adopted to avoid infringing on the IP rights of others in export markets.
6. You know the different ways of protecting intellectual property rights abroad and apply them to your overseas business.
7. You analyze some of the key IP issues that need attention while planning to outsource some business activity abroad.

LEARNING POINT 1: Importance of IP rights for exporters

1. Why intellectual property rights are important for exporters?

The business decision to enter foreign markets and export goods and services abroad is not without risks and challenges: exporting involves a considerable investment of financial, managerial, and production resources. Therefore, it requires careful planning and execution.

Companies generally need to make an assessment as to whether they are ready to embark on export operations and whether their product is indeed exportable. In assessing whether it has an exportable product, companies should consider various factors such as modification, license to export, compliance with norms or standards, after-sale support, and reasonable export price, etc.

When faced with all these questions prior to launching a product in an export market, exporters often forget to consider intellectual property issues. This may prove costly and should be tackled by exporters before it is too late. What intellectual property (IP) issues should be taken into consideration when developing an export plan? What are the most common IP mistakes that should be avoided by exporters?

(4) Exclusivity

Intellectual property rights provide exclusivity over certain features of a product enabling the owner to prevent or stop others from commercially using them in the marketplace. This enables companies to control the use of their trademark and the innovative and creative features of their products and strengthen their competitive position in export markets.

(5) Stop imitators

If the product is successful in a given market, it is likely that competing

firms will sooner or later manufacture a similar or identical product that will compete with the product in question. Without IP protection it may be difficult or impossible to stop imitators and the resultant loss of profit may be substantial.

(6) Avoid infringing upon other's IP rights

Failure to consider IP issues may result in large or fatal losses if your products are considered to be infringing upon the IP rights of others in the export market concerned. Even if an invention, design or trademark is not protected in your own country, this does not mean that someone else has not protected them in an export market. A product may have functional or aesthetic features that are not protected in your home country but are protected as IP rights by others in an export market. This may also be true for trademarks.

(7) Access new markets through licensing, franchising, joint ventures, etc.

IP protection makes it easier for an enterprise to access new markets through licensing, franchising, the establishment of joint ventures or other contractual agreements with other companies. IP rights help firms to establish partnerships with other firms for the production, marketing, distribution or delivery of goods and services in foreign markets. It may also provide a company with greater bargaining power when seeking to license in technology from other firms that may be interested in its own proprietary technologies, copyright works, designs, trademarks, etc.

(8) Protection of adaptation

The adaptation of the product, its design, its brand or its packaging to export market(s) will require creative and/or inventive work that may, if certain requirements are met, be protected through the IP system thus guaranteeing a degree of exclusivity over the adaptations.

(9) Negotiation with distributors, importers or other partners

The negotiation of agreements with distributors, importers or other partners will have to take into account issues relating to the ownership of IP rights, particularly if the product will be manufactured abroad or will be modified, packaged or distributed by foreign partners.

(10) Marketing of the product

The marketing of your product will rely strongly on your company's brand image, embodied primarily in its trademark, which, if unprotected, would be significantly more difficult to enforce in case of copying or imitation by competitors.

(11) Timing of participation in fairs and exhibitions

The timing of your participation in fairs and exhibitions may depend on whether you have already applied for protection for your inventions or designs, as early disclosure of your innovative work may result in loss of novelty and preclude you from applying for protection at a later stage. Your participation in fairs and exhibitions also result in problems if your products on display infringe the IPR of others.

(12) Pricing of the product

The pricing of the product will partly depend on the extent to which the brand or trademark is recognized and valued by consumers in the export market and the extent to which the product will face competition from similar or identical products.

(13) Fund-raising

In raising funds, holding patents over the innovative aspects of your product, or owning trademarks with a good reputation, is often useful for convincing investors, venture capitalists or banks of the commercial opportunities available to your product.

2. Some of the most common IP mistakes made by exporters

Exporters often realize about the importance of protecting their IP once it is too late, i.e., once they are faced with imitators or counterfeiters or once they are accused of infringing the rights of others. Some of the most common mistakes made by exporters include the following.

(4) Believing that IP protection is universal

Many exporters believe that by applying for trademark, patent or industrial design protection in their own country they are automatically protected worldwide. However, IP rights are territorial rights, and IP offices only grant protection for the relevant national (or regional) jurisdiction.

(5) Assuming that laws and procedures for the protection of IP rights are the same worldwide

While there has been significant harmonization of laws and procedures for the protection of intellectual property rights worldwide, there remain many areas in which there are significant differences between countries. Computer programs, for example, are one area where different countries have different practices. Another example relates to the protection of designs, which, depending on the legal system may be protected by industrial design law, copyright law, trademark law or unfair competition law. It is advisable to find out about the applicable legislation of the country in which a company intends to commercialize its products. WIPO's Collection of Laws for Electronic Access (CLEA) could be an important resource in this regard (<http://www.wipo.int/clea-new/en/>).

(6) Not using the regional or international protection systems

Applying for IP protection in a number of countries worldwide may be expensive. Regional and international protection systems, if available, are an effective way of applying for IP protection in various countries.

(7) Missing important deadlines for filing applications abroad

Patent applications in other countries need to be filed within 12 months from the date of application in the first country. This period is generally referred to as the “priority period.” Failure to apply during the priority period may result in the impossibility to obtain patent protection in the other countries due to loss of novelty. A similar rule applies for industrial designs, for which the priority period is 6 months.

(8) Disclosing information too early or without a confidentiality or non-disclosure agreement

Disclosing information on your latest product innovation or new design to potential trade partners, export agents, distributors or anybody else prior to applying for protection or without a written contract requiring confidentiality, could result in you losing the rights over your invention or design. Your innovative product may, in fact, no longer be considered new and, therefore, patentable, or somebody else may apply for patent protection thus excluding you from the use of your own invention.

(9) Not checking whether a trademark is already registered or is being used by competitors in the export market

Using a trademark in a foreign country that is identical or similar to one that is registered or is already being used by a different company could be considered to be an infringement on the other firm’s trademark rights. The firm may be asked to cease using such a trademark or asked to pay damages for infringement, which may be a huge blow to the entire marketing and export strategy of the firm.

(10) Exporting licensed products without authorization from the licensor.

If an enterprise has licensed-in technology from other companies, it should make sure that it has a right to export the product bearing such technology in order to avoid infringing on the rights of the licensor. The geographical

area in which a licensed product may be commercialized is generally explicitly defined in the licensing contract.

(11) Not defining issues of ownership of IP rights when outsourcing manufacturing

Many companies outsource the creation, manufacturing or design of products to other firms, often in foreign countries. But businesses often forget to protect their IP rights in such countries or to specify issues of ownership of designs, inventions, software, etc., in the contracts with the foreign manufacturing companies. The main danger is that misunderstandings about ownership of the IP rights may arise between the company outsourcing the work and the firm contracted to do the work. There are great variations amongst national laws on the issue of ownership of rights over contracted work and different rules generally apply to different IP rights. This is why it is important to find out about national legislation in the relevant export market and to include specific clauses in the original contract between the two firms clarifying issues of ownership of rights over any creative or inventive work that results from the agreement.

(12) Seeking to license a product in a market where the relevant patent, design or trademark is not protected

Many firms grant licenses to foreign companies authorizing them to use their IP rights in exchange for a one-time fee or a recurring royalty. A licensing contract often includes the sharing of technological know-how as well as the authorization to manufacture and/or sell a product developed by the licensor. It is important, wherever a licensing agreement is being negotiated, to make sure that the intellectual property rights related to the product being licensed have been adequately protected in the foreign country in question and that appropriate clauses have been included to clarify issues of ownership over such IP rights.

(13) Using a trademark that is inappropriate for the market in question

There are numerous cases in which companies begin to market their products or services in a foreign market without realizing that their trademark is inappropriate for that specific market in that: (a) the trademark has negative or undesired connotations in the local language or local culture or (b) the trademark is unlikely to be registered at the national IP office. It is important to ensure that the trademark is appropriate for a given market and has been registered at the trademark office before launching a product bearing that trademark in the market in question.

In conclusion, there are ample reasons to make sure that IP issues are duly taken into consideration while developing your export plan and that companies take sufficient measures a) to ensure that they are not caught off-guard infringing on the IP rights of others; and b) to limit the opportunities for competitors to free-ride on their firm's inventiveness and creativity. A few steps early in the planning process could prove extremely valuable later once export operations begin.

More Reference 1-1: Nike case



When Nike tried to register its now famous "Nike" mark in other countries of the world it found that, in Spain, the word "Nike" had already been registered many years previously (that is before Nike became famous) by its ex

distributor, a Spanish company called Cidesport. Nike could only sell its products in Spain using the company's swoosh" logo, not the Nike name. Recently, after many years of battling in the Spanish courts, the Supreme Court of Spain granted Nike the right to use its name.

LEARNING POINT 2: Checking your freedom to operate

The first step to take when exporting is to ensure that your product will not be infringing on the IP rights of others in the export market. This type of analysis is called a "freedom to operate" analysis and, depending on the product in question, may consist of a basic trademark search or a thorough investigation involving various IP rights. Some of the common features of a freedom to operate analysis would include the following.

4. Trademark search

Check whether the trademark you intend to use or any trademarks that may be confusingly similar are already in use or are registered at the trademark office of the country in question. Doing a trademark search in the relevant export market would be crucial prior to initiating export operations, and preferably prior to selecting the trademark. A list of on-line trademark databases for doing trademark searches is available at: <http://ecommerce.wipo.int/databases/trademark/output.html>.



You may also wish to find out whether any company has a similar trade name or domain name that may lead to a future dispute. You may also have a look at the trademarks being used by the main competitors in the export market to ensure that they are not using trademarks that may be considered to be confusingly similar to yours, even if they have not registered them.

If your product contains any technology, creative content or brands that have been licensed in from third parties, make sure that you have the right to commercialize your product bearing those proprietary features in the export market. Your licensing contract will have information on the geographical area for which you have been granted a license. If you are not currently authorized to do so, you may wish to contact the licensor and negotiate the extension of the geographical coverage of your license.

5. Patent search

(1) Basics of Patent Search

Consulting patent databases is done to ensure that your product does not infringe on patents owned by others. To do so you may consult the national or regional patent database, that may be available on-line, or you may submit a search request to the national or regional patent office. A list of free patent databases that are available on-line is provided at: <http://www.wipo.int/ipdl/en/resources/links.jsp> Bear in mind that conducting a through patent search requires a great deal of technical expertise and it may be advisable to contact a professional to do this.

(2) Strategic use of the results of a patent search

If your search uncovers patents that protect technology that is incorporated in your product, you have the following options.

a. Purchasing or licensing the patent

Licensing involves obtaining written authorization from the patent holder to use the patented technology for specified acts, in specified markets and for a specified period of time. The convenience of such an agreement will depend largely on the terms and conditions of the proposed license. While there is a potential loss of autonomy, and while the patent holder will require payment (e.g. lump-sum payments or royalties), it may be the simplest way of clearing the ground for the commercialization of a new technology or product.

b. Inventing around

A second option is to “invent around” the invention. This implies steering research, or making changes to the product or process in order to avoid infringing on the patent(s) owned by others. For example, if freedom to operate is limited by a process patent, then a company may be able to develop an alternative process for arriving at a similar end result and thus be able to commercialize the invention without the need to pay a licensing fee to someone else.

c. Cross-licensing

This involves two or more companies exchanging licenses so as to be able to use certain patents owned by the other parties. In order to be able to cross-license, a company needs a well-protected patent portfolio that is of value to potential licensing partners.

d. Patent pools.

This is a mechanism by which two or more companies practicing related technologies put their patents in a pool to establish a clearinghouse for patent rights. A well-known example is the MPEG-2 standard for visual and audio compression which combines technology that has been protected with over 100 patents by different companies who have grouped into a patent pool.

While you can never be completely sure that your product will not be considered by some competitor to be infringing on its IP rights, looking into these issues prior to entering an export market would generally save you and your company from a big headache at a later stage.

More Reference 1-2: The case of copyright and related rights

4. Copyright protection abroad

In terms of protection abroad, the works created by nationals or residents of

a country that is party to the Berne Convention for the Protection of Literary and Artistic Works or is a Member of the World Trade Organization (WTO), will be automatically protected in all other countries that are party to the Berne Convention or are Members of the WTO. This currently includes over 150 countries.

Registration abroad is no required, as copyright protection does not require compliance with official formalities for protection.

5. Registration of copyright

Some countries have copyright offices that register copyright on an optional basis. Registration of copyright is often beneficial for exporters as the registration provides proof of ownership in case of infringement.

LEARNING POINT 3: IP in international outsourcing

1. Introduction

Outsourcing offshore has become a popular corporate strategy. It refers to an enterprise making an arm's length alliance with one or more entities or enterprises abroad to perform carefully selected operations and day-to-day

processes that were previously done in-house. Over the last decade, the evolution of information and communication technologies (ICTs) has considerably improved the ability to control outsourced activities or processes, whether in one or more distant national or international location(s), making outsourcing a more attractive option for many other sectors.

Offshore outsourcing may therefore happen at any level of the value chain. At the lowest level, labor-intensive unskilled tasks are outsourced. At the next level, the production or manufacture of a component, or the whole product or service, is outsourced. At the next higher level, technology development is

outsourced, including some or all of the associated research and development (R&D) tasks.

Outsourcing requires the sharing of a wide array of proprietary knowledge. The nature and critical importance of intellectual property will differ in every sector of industry and business. Nonetheless, every type of IP asset – trade secrets, trademarks, industrial designs, patents, copyright and related rights, etc. – may be involved at the different levels of outsourcing relationships. However, each type of IP asset is generally governed by its own distinct national law, which varies from one country to another, adding further complexity to managing IP assets in offshore outsourcing relationships, especially if there are many partners in different countries. These issues will become increasingly important to enterprises as the practice of offshore outsourcing continues to grow.

Effective management of this sharing of knowledge requires that both parties properly administer their IP while keeping the overall business objectives in view. The benefits of sharing IP assets must outweigh the multiple risks encountered in outsourcing, including the risks linked to the shared IP assets. Such risks include challenges in monitoring and/or dealing effectively with various types of breaches of contract clauses, theft or misappropriation of trade secrets, misuse or loss of other types of IP rights (resulting in partial loss of control of business), poor or inconsistent quality of goods and services (that may affect the reputation or brand image), enforcement of IP rights, parallel imports and grey-market issues.

Learn more: Parallel Imports

Once you have sold a product in a given export market, can somebody buy that product in that market and re-import it into your home country for sale? Could you claim that he is infringing on your IP rights, for example, your trademark rights, as you have an exclusive right to import products bearing that trademark? This difficult question has important connotations particularly for companies that have different pricing

strategies for different markets. It may also be a source of concern for a company that is developing its export strategy.

The answer to the above question is related to the concept of exhaustion of IP rights, and not all countries have the same policy in this area. Simply put, the principle of exhaustion of IP rights means that once a product protected by IP has been sold either by your enterprise, or with its consent, all or some of the exclusive IP rights are said to be “exhausted.” This limitation on IP rights is sometimes called the “first sale doctrine”, as the rights end with the first sale of the product. Unless otherwise specified by the law, subsequent acts of resale, rental, lending or other forms of commercial use by third parties can no longer be controlled or opposed by your enterprise. This principle generally applies (with some exceptions, e.g. CDs or DVDs) in most countries.

While there is a fairly broad consensus that the above principle applies in the domestic market, there is less of a consensus on whether, and to what extent, the sale or commercial exploitation of an IP protected product abroad also exhausts the IP rights over this product. This issue becomes relevant in cases of so-called “parallel importation.” Parallel importation refers to the import of goods by importers who are not part of the distribution channels contractually negotiated by the manufacturer of the IP protected product. Because the manufacturer/IP owner has no contractual connection with a parallel importer, the imported goods are sometimes referred to as “grey market goods”, which in fact is somewhat misleading, as the goods as such are original; only the “parallel” distribution channels are not controlled by the manufacturer/IP owner. They may be packaged or labeled differently.

1. National exhaustion

The principle of exhaustion is applied differently by different countries. Countries that apply the national exhaustion principle do not allow the IP owner to control the commercial exploitation of goods put on the domestic market by the IP owner or with his consent as long as the goods remain in the domestic market. However, the IP owner (or his authorized licensee) could still oppose the importation of original goods marketed abroad or exported from the domestic market, based on the right of importation.

2. Regional exhaustion

In countries that apply a system of regional exhaustion (such as the countries of the European Union), the first sale of the IP protected product by the IP owner, or by someone else with his consent, exhausts all IP rights over the products not only domestically, but within the whole region, and parallel imports within the region can no longer be opposed based on the IP right but can be opposed at the international border of the region with countries outside the region.

3. International exhaustion

If a country applies the concept of international exhaustion, the IP rights are exhausted once the product has been sold by the IP owner or with his consent in any part of the world. National IP offices, or IP agents/attorneys, should be able to provide guidance concerning the legal provisions on exhaustion of IP rights for each type of IP right in the countries of interest to you.

Example

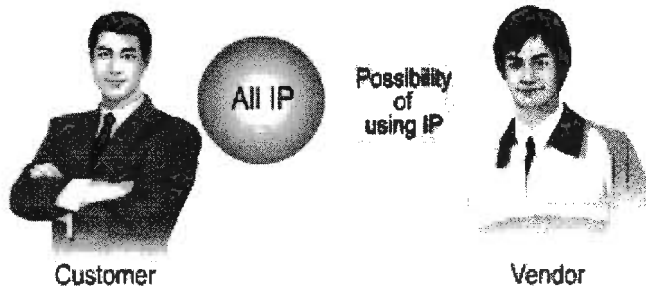
When Tesco supermarket began importing Levi's jeans from outside the European Union and sold them in the UK, a legal battle ensued as Levi Strauss sought to stop parallel imports on the grounds that the EU applies a system of regional exhaustion of IP rights.

2. Critical concerns in offshore outsourcing

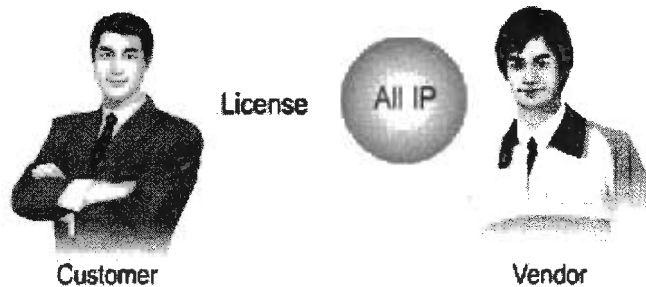
(4) Ownership of IP

Ownership of IP is perhaps the first of two critical concerns in offshore outsourcing. Whether the outsourced work is expected to take place domestically or outside the enterprises' national borders, it is essential to identify, account for and clarify ownership related issues of IP assets improved or created during the relationship. There are 3 approaches to sharing ownership rights over IP, which is improved or created during an outsourcing relationship.

- a. The customer owns all IP improved or created during the outsourcing relationship. And the vendor has the possibility of using the IP through a negotiated license agreement.



- b. customer takes a license through negotiations. And the vendor owns all IP improved or created during the outsourcing relationship.



- c. A wide range of approaches ranging from shared IP ownership to allocation of ownership on the basis of some agreed criteria.



(2) The accidental disclosure of confidential information or trade secrets

The second critical concern in outsourcing offshore is the accidental or willful disclosure of confidential information and trade secrets. In many

countries, trade secrets are protected by an expressed or implied contract; that is, they are either not at all, or are inadequately, protected by a specific national law for the protection of trade secrets or preventing espionage. Therefore, a primary concern when outsourcing is the potential partner's ability to safeguard confidential information of commercial value against accidental, inadvertent or willful misappropriation, misuse, sabotage, loss or theft. If the partner cannot be trusted to protect trade secrets, then the risks of outsourcing offshore may far outweigh its potential benefits.

Hence, it is crucial to review the integrated security and/or IP protection program of the potential outsourcing partner. Remember that the value of a trade secret rests in the company's ability to keep relevant information confidential. Once a trade secret is made public, it enters the public domain. Invariably, it will be lost permanently and, in most instances, so will the competitive advantage linked to it.

A realistic assessment of the challenges of enforcing IP rights is also necessary before entering into an outsourcing relationship. The effectiveness of – and time and resources needed for – using the legal and administrative mechanisms for dispute resolution and enforcement of IP rights, and to deal with piracy and counterfeiting, vary a lot depending on the country and the type of IP asset involved.

LEARNING POINT 4: Protecting your intellectual property rights in export market

The procedures for obtaining IP protection in different countries can vary significantly and it is important to be well-informed about the national procedures and legislation at each stage of the application process as well as when seeking to license or enforce IP rights. In addition, applications generally need to be filed in

the national languages and there are important costs involved in translating technical documents such as patents. Many countries require applicants to have an IP lawyer or IP agent represent them during the application process.

There are essentially three alternative procedures for applying for IP protection in other countries: the national route, the regional route and the international route.

4. The national route

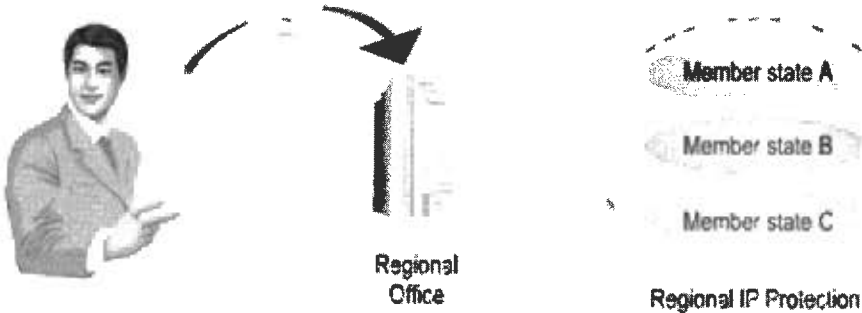
One option is to seek protection in individual countries separately by applying directly to national intellectual property offices. Each application may have to be translated into the national language. You will be required to pay the national application fees and, particularly in the



case of patents, you may need to retain an IP agent or attorney who will assist you in making sure the application meets national requirements. Some countries will also require that you hire an IP agent to submit the application for trademarks and industrial design rights. If you are still in the phase of assessing the commercial viability of an invention or are still exploring potential export markets or licensing partners, the national route would appear to be particularly expensive and cumbersome, especially where protection is being sought in a large number of countries. In such cases, the facilities offered by the WIPO-administered international filing and registration systems for inventions, marks and industrial designs offer a simpler and generally less expensive alternative.

5. The regional route

Some countries have established regional agreements for obtaining IP protection for an entire region with a single application. The regional IP offices include:



(4) EPO

European Patent Office (EPO) for patent protection in all countries that are party to the European Patent Convention, currently 32 countries. More information may be obtained at: <http://www.european-patent-office.org>

(5) OHIM

OfOHIM) for the Community Trademark and the Community Design, which grants their proprietors a uniform right valid in all Member States of the European Union by means of one procedural system: <http://oami.eu.int/>

(6) ARIPO

African Regional Industrial Property Organization (ARIPO), the regional IP office for English-speaking Africa for patents, utility models, trademarks and industrial designs: <http://www.aripo.org>

(7) OAPI

African Intellectual Property Organization (OAPI), the regional IP office for French- and Portuguese-speaking Africa for patents, utility models, geographical indications, trademarks, industrial designs and, in the future, layout-designs of integrated circuits: <http://oapi.wipo.net/>

(8) EAPO

Eurasian Patent Office (EAPO) for patent protection in countries of the Community of Independent States: <http://www.eapo.org/>

(9) Benelux Trademark Office & Benelux Designs Office

Benelux Trademark Office & Benelux Designs Office for trademark and industrial design protection in Belgium, the Netherlands and Luxembourg: <http://www.bmb-bbm.org/> and <http://www.bbtm-bbdm.org/>

(10) Patent Office of the Cooperation Council for the Arab States of the Gulf

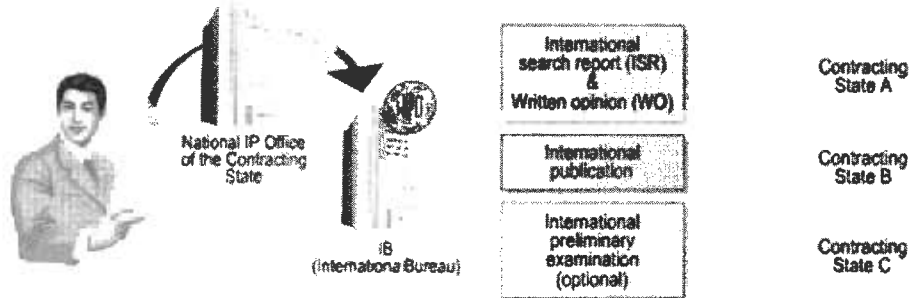
Patent Office of the Cooperation Council for the Arab States of the Gulf for patent protection in Kuwait, Qatar, Oman, Saudi Arabia, Bahrain and the Emirates: <http://www.gulf-patent-office.org.sa/>

3. The international route

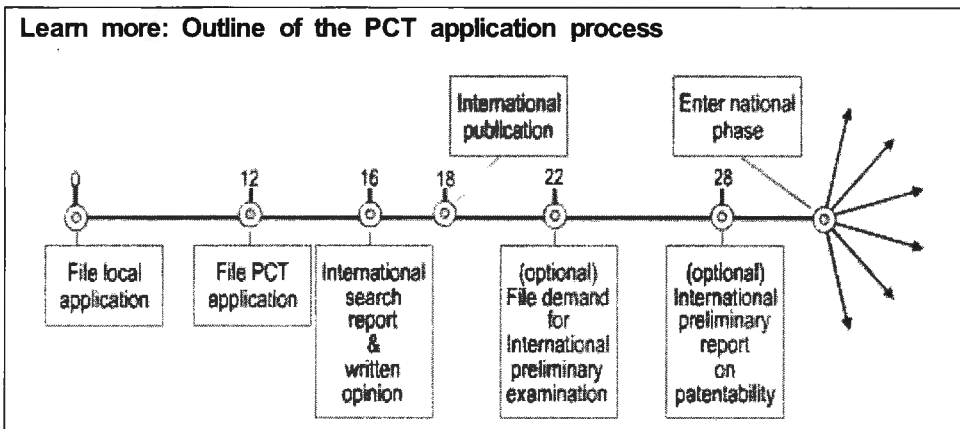
The WIPO-administered systems of international filing and registration simplify greatly the process for simultaneously seeking IP protection in a large number of countries. WIPO-administered systems of international protection include three different mechanisms of protection for specific industrial property rights:

(1) The Patent Cooperation Treaty (PCT)

A system for filing international patent applications is provided under the Patent Cooperation Treaty (or PCT) system, the worldwide system for simplified multiple filing of patent applications.



The Patent Cooperation Treaty makes it possible to seek patent protection for an invention simultaneously in over 125 countries by filing an "international" patent application. Such an application may be filed by anyone who is a national or resident of a Contracting State. It may generally be filed with the national patent office of the Contracting State of which the applicant is a national or resident or, at the applicant's option, with the International Bureau of WIPO in Geneva.



More Reference 4-1: The Priority Period

Companies that are seeking to protect their patents and industrial designs abroad should take into consideration the priority period. What is the priority period? The priority period starts with the first time you file an application for a given invention or industrial design. For patents, the priority period is 12 months counted from the date of filing a patent application in the first or

home country. During those 12 months, if you file for protection for the same invention in foreign countries your application in those countries will be deemed to have been submitted on the priority date. Thus, your application will have priority over other applications for the same invention filed by others after the priority date. It is advisable for applicants to file their patent applications in all countries of interest during the priority period. The priority period for industrial designs is 6 months.

After the expiration of the priority period and until the patent application is first published by the patent office (generally 18 months after the priority date), applicants can still apply for protection in other countries but they cannot claim priority of the earlier application. Of course, this can only be done if the applicant has not disclosed his invention by any other means, as once the invention has been disclosed it would no longer meet the novelty requirement.

More Reference 4-2: Advantages of the PCT

3. 18 additional months

The PCT provides at least 18 additional months on top of the 12-month priority period, in which applicants can explore the commercial potential of their product in various countries and decide where to seek patent protection. By submitting an international patent application, payment of the national fees and translation costs associated with national applications is thus delayed. The PCT is widely used by applicants to keep their options open for as long as possible, thus postponing the decision on which countries to seek protection.

4. International Search Report and Written Opinion of the International Searching Authority.

PCT applicants receive valuable information about the potential patentability of their invention in the form of the PCT International Search Report and the Written Opinion of the International Searching Authority. These documents provide PCT applicants with a strong basis on which they can make their decisions about whether and where to pursue patent protection. The International Search Report contains a list of prior art documents from all over the world, which have been identified as relevant to the invention. The Written Opinion of the

International Searching Authority analyzes the potential patentability in light of the results of the International Search Report.

5. Reduction in the initial transaction costs:

A single PCT application, in one language and with one set of fees, has legal effect in all PCT member countries. This effect significantly reduces the initial transaction costs of submitting separate applications to each patent office.

The PCT may also be used to file applications under some of the regional patent systems, such as the African Regional Industrial Property Organization or the European Patent Office. This enables applicants to combine the regional route and the international route. Guidance on how to submit an international application under the PCT can be obtained from your national patent office and at: www.wipo.int/pct

Example

An example of a company using the PCT to expand its international business is available at: http://www.wipo.int/sme/en/case_studies/enviroscrub.htm

(2) The Madrid system

The Madrid system for the International Registration of marks offers a trademark owner the possibility to have his trademark protected in several countries by simply filing one application directly with his own national or regional trademark office. An international mark so registered is equivalent to an application or a registration of the same mark effected directly in each of the countries designated by the applicant. If the trademark office of a designated country does not refuse protection within a specified period, the protection of the mark is the same as if it had been registered by that Office.

The Madrid system also simplifies greatly the subsequent management of the mark, since it is possible to record subsequent changes or to renew the registration through a single procedural step. Further countries may be designated subsequently.

Before a mark can be the subject of an international application, it must already have been registered, or registration must have been applied for, for the same goods or services with the trademark registration office of a country. This office is referred to as the *Office of origin*. For the first five years, the international registration is dependent on the application or registration with the Office of origin (the “basic application” or “basic registration”). After the end of the five-year period, the international registration becomes independent of the basic application or basic registration.

In principle, an international application may be filed in English, French or Spanish but the Office of origin may however restrict the applicant’s choice to only one of these languages. An international registration lasts for ten years. It may be renewed for further periods of ten years, simply by paying the requisite fees to WIPO. There are currently 80 members of the Madrid system as of January 2007.

More Reference 4-3: Advantages of the Madrid System

The advantages of the Madrid System relate to its simplicity, flexibility and economy. For companies operating in more than one country, it may mean significant economies for registering and maintaining a registration. In more specific terms, the main advantages may be summarized as follows:

3. At the application stage:

- (1) a single application is submitted instead of many applications;
- (2) it is submitted in one language only;
- (3) it is filed with the trademark office of the home country, without needing to go to foreign countries to file the application;
- (4) it enables applicants to register in several countries and the registration has the same effect or legal validity as if it had been registered using the national route;

(5) applicants would only need to engage a foreign trademark attorney or agent if the trademark is refused by the office of a designated country.

2. At the post-registration stage:

(3) applicants have a guarantee that if a national office does not present grounds for refusal within a given time period (generally 12 months, but in some cases 18 months or more) the mark will be considered as registered in the designated countries;

(4) applicants have the possibility of designating other countries after registration, in case an applicant initiates export operations in a new market;

(5) easy handling of operations;

(6) changes to the application (transfers, changes of name or address, etc.) can be recorded through a single request and a single set of fees;

(7) renewals can be done by submitting a single request instead of having to renew the trademark at each national office.

For more information on the Madrid System, see: <http://www.wipo.int/madrid/en/>

Example

An example of a company using the Madrid system to register its trademarks abroad is available at: http://www.wipo.int/sme/en/case_studies/saigon_cosmetics.htm.

(3) The Hague Agreement

The system for the international registration of industrial designs gives the owner of an industrial design the possibility to have his design protected in several countries by simply filing one application with the International Bureau of WIPO, in one language, with one set of fees in one currency (Swiss Francs).

An international registration produces the same effects in each of the designated countries as if the design had been registered there directly unless protection is refused by the competent Office of that country.

The Hague system simplifies greatly also the subsequent management of the industrial design, since it is possible to record subsequent changes or to renew the registration through a simple single procedural step with the International Bureau of WIPO. Currently, 47 countries as of April 2007 are members of the Hague Agreement. For more information, see: <http://www.wipo.int/hague/en/>

QUIZ

Q1. Identify the incorrect statement:

- 1) A legal protection in the home country of IP rights also protects the IP in the overseas market.
- 2) Without IP protection it may be difficult or impossible to stop imitators abroad.
- 3) Exporters may have problems in international fairs and exhibitions if they display their products before getting protection through the IP system.
- 4) IP rights help firms to establish partnerships with others firms for the production, marketing, distribution or delivery of goods and services in foreign markets.

Answer : 1)

IP protection is limited to the territory in which it was obtained. As such, there is no automatic protection in other countries except in the case of copyright and related rights where IP rights will be available in all countries members of the Berne Convention.

Q2. Identify the incorrect statement:

- 1) If you have a license to use certain IP rights you can also export the product to which those IP rights have been used or applied.
- 2) Undertake a trademark and patent search in the relevant export market.
- 3) Disclose information to potential partners on the basis of a confidentiality agreement and consult the national or regional patent database that may be available on-line.
- 4) Check the deadlines for filing IP applications.

Answer : 1)

You can only export products that include licensed IP if the terms of the license agreement permits export to that particular country or region. It is important therefore to check the terms of the license agreement before embarking on an export strategy of goods involving licensed IP.

Q3. Identify the incorrect statement:

- 1) The intellectual property laws are more or less the same around the world.
- 2) When outsourcing or engaging in any other partnership the improvements made to the patented technology during that partnership don't always belong to the patent holder.
- 3) There is no necessity to obtain a license for a particular export market if the IP rights in question are not protected in that market.
- 4) It is important to check whether the trademark is acceptable in the export market.

Answer : 1)

While there has been a lot of effort to harmonize IP laws around the world there are still significant differences in the different laws and it is important to always check the situation in the relevant export market.

MODULE
10

IP Audit

MODULE 10. IP Audit

OUTLINE

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4. Types of IP Audits
5. IP Audit team

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4. Background research for preparing an audit plan
5. Preparing an IP Audit plan

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3. Starting with a detailed check list
4. Auditing different contracts/agreements
5. Auditing IP assets

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3. Using the results of an IP Audit
4. From IP Audit to IP asset management

INTRODUCTION

Historically, the sources of strength of a business were its tangible assets such as land, buildings, machinery and equipment. Today, however, more and more businesses rely for their competitive strength on their intangible assets, especially on trademarks, inventions, trade secrets, copyright, designs, and the like.

An IP Audit is a systematic review of the intellectual properties owned, used or acquired by a business so as to assess and manage risk, remedy problems and implement best practices in IP asset management. Nowadays, an IP Audit is an indispensable tool for successfully managing knowledge-driven business by aiding the process of creating or revising its IP strategy.

LEARNING OBJECTIVES

3. You understand the concept and importance of an IP Audit.
4. You know how to prepare for an IP Audit.
5. You know the procedure for conducting an IP Audit.
6. You know how to use the results of an IP Audit.

LEARNING POINT 1: Understanding an IP Audit

3. Definition of an IP Audit

- (3) IP audit is a systematic review of the IP owned, used or acquired by a business so as to assess and manage risk, remedy problems and implement best practices in IP asset management.
- (4) IP audit involves undertaking a comprehensive review of a company's IP assets, related agreements, relevant policies and compliance procedures.
- (5) An IP audit helps a business to make an inventory of its IP assets or update it and analyze:
 - a. How the IP assets are used or unused.
 - b. Whether the IP assets used by the business are owned by the company or by others
 - c. Whether these IP assets are infringing the rights of others or others are infringing on these rights
 - d. And determine, in the light of all this information, what actions are required to be taken with respect to each IP asset, or a portfolio of such assets, to serve the relevant business goals of the company.
- (4) An IP audit seeks to uncover unused or under-utilized assets, to identify any threats to a company's bottom line, and to enable business managers to devise informed business and IP strategies that help maintain and improve its competitive position in the relevant market(s).

More References 1-1: Importance of an IP Audit

The followings are some reasons as to why an IP Audit should be made.

1. In the US, nearly 40% of the market value of an average company is absent from its balance sheet.
2. In the EU more than half of all large companies leave IP outside the scope of internal audits.
3. In 2005, Qualcomm generated about 58% of its \$5.7 billion in revenue from the sale of Qualcomm-designed wireless chips, which are manufactured by third parties under contract.
4. Since 1993, IBM has been making some US\$1 billion per year from licensing non-core technologies, which otherwise would have remained unused.
(<http://www.signonsandiego.com/articlelink/fallbrook2/fallbrook2.html>)
5. In Europe 36% of patents are not used.
6. Honeywell International uses a separate company Honeywell Intellectual Properties Inc, to manage its IP portfolio. Recently, it licensed its LCD technology to competitors such as Sanyo, LGC, Philips, and Chungwa Picture Tubes.
7. Honeywell, in 2000, received a then record award of damages of US\$127 million from Minolta for technology it hadn't itself commercialized.
8. 2% of Patents are used as the basis for forming a new company.
9. In 2002, Korea exported technology worth US\$0.6 billion and imported technology worth US\$2.7 billion through licensing, R&D sharing and Joint Ventures.
10. Since 2002 Korea has increased its R&D expenditure from 2.6% of GDP in 1998 to 3.4% in 2004.
11. In New Zealand SME's account for 37.3% of GDP and have the highest profits per employee, but most SME's are unaware of the value of their IP or the fact that there is a good chance that it is being infringed.
12. The Coca-cola brand is estimated to be worth US\$80 billion.
13. US company Texas Instruments earns more from licensing its unused patent rights than from its products.
14. US companies have a fiduciary responsibility to manage IP rights and to report actual company value rather than just book value under the Securities Exchange Act 1934.

15. In an EU survey 28% of companies had no provision for IP ownership in their standard Employment Contract.
16. 50% of EU companies have no strategy for managing their IP rights beyond mere filing or renewal payments.

source: <http://www.piperpat.com>

2. Type of IP Audit

Generally, there are three types of IP audits: General purpose IP audit, Event-driven IP audit and Limited purpose focused IP audit.

(3) General purpose IP Audit

- a. A general or broad IP audit is done in the following types of contexts:
 - Before establishing a new company it is always important for a start-up company to be aware of intangible assets in owns or needs to protect.
 - When a business is considering implementing new policies, standards, or procedures relating to IP.
 - When a business is considering implementing a new marketing approach or direction, or is planning a major reorganization of the company.
 - When a new person becomes responsible for IP management.
- b. Once a comprehensive IP audit has been undertaken, a smaller effort and expense is needed at regular intervals, such as on an annual basis, so that IP assets are reviewed and appropriate decisions taken, depending on the current and emerging needs of a company.

(2) Event driven IP Audit

Event driven IP Audit is generally much narrower in scope than a broad or general purpose IP audit. Further, the nature and scope of such an audit is

determined by the event in question, and the time and resources available for doing it.

a. What is it?

- Event driven IP audit is often called “IP due diligence” when done to assess, as objectively as possible, the value and risk of all or a part of a target company’s IP assets.
- IP due diligence is a part of a comprehensive due diligence audit that is done to assess the financial, commercial and legal benefits and risks linked to a target company’s IP portfolio, typically before it is bought or invested in.
- Before starting the IP due diligence process, a mutual non-disclosure agreement should be signed between (a) the potential acquirer, investor, or creditor and (b) the target company.
- When done properly, IP due diligence provides detailed information that may affect the price or other key elements of a proposed transaction or even aborting the further consideration of the proposed transaction.

b. Subject?

IP due diligence generally seeks to:

- Identify and locate IP assets, and then assess the nature and scope of the IP to evaluate their benefits and allocate risks associated with the ownership or use of the relevant IP assets; in particular, it seeks to determine whether the relevant IP is free of encumbrances for its intended business use(s).
- Identify problems in and barriers to the transfer, hypothecation or securitization of the IP assets under consideration.
- Identify and apportion between the two parties the expenses incident to the transfer of IP assets under consideration.

c. When is it done?

IP due diligence is done in the following types of contexts:

- Merger & Acquisition or Joint Venture

An IP audit provides a basis for assessing the risk and value of relevant IP assets in a proposed acquisition or sale of intellectual property, as for example, prior to entering into any serious negotiations for a possible merger or acquisition, divestiture, or a joint venture arrangement. It could lead to a significant increase in the value of the acquired company or the resulting merged entity. On the other hand, such an exercise may significantly reduce the acquisition cost or lead to a cancellation of the acquisition process if the due diligence process reveals major IP risks or IP problems in the target company.

- Financial transactions

IP due diligence is important before entering into a financial transaction involving IP, such as before an initial public offering or private placement of stock, or significant stock purchase, or before taking of a security interest in IP, as all of these have an impact on the ownership of IP. Through an IP audit, a potential lender will be able to more meaningfully assess a structured IP portfolio as part of its overall analysis of the credit worthiness of a target company.

- Buying or selling a business division or IP transfer

Before a company buys or sells a division or a product line, a seller will generally make a series of representations and warranties as to the ownership, non-infringement and marketability of the IP assets linked to the transaction in the ensuing written agreement. Before a transfer or assignment of interest in IP, an IP due diligence should be done separately by both parties to ensure that the transfer or assignment meets both their respective business interests.

- Launching a new product or service

When a significant new product or service is being developed or about to be launched, risk of infringing IP rights of others might be especially high. An IP audit needs to be taken to address any possible infringement or freedom to operate issues linked to new product development and launch of such a product on the market.

- IP licensing

A potential licensor has to ensure, for example, that it actually owns the IP that is sought to be licensed to others. Also, it has to be sure that there are no existing licenses that would interfere with the proposed new license. A potential licensee has to ensure, for example, that the potential licensor has the necessary rights to the IP in question so as to legitimately transfer the rights and that scope and extent of the proposed license will duly serve its intended purpose.

- Bankruptcy, layoffs, etc.

An IP audit would also be appropriate as a planning tool in advance of any filings for bankruptcy, significant plans for employee layoffs, business closure, or elimination of significant lines of business.

(3) Limited purpose focused audits

b. A limited purpose audit is typically much narrower in scope than the other two types and is performed under much constrained time schedules. These audits tend to be situational in nature. They are typically used to justify a certain legal position or the valuation of a particular IP.

c. A limited purpose focused audit is done in the following types of contexts:

- Personnel turnover

Before a major personnel turnover of in-house research and development or marketing, especially if it involves disgruntled employees, an IP audit

should be done to secure the status of a company's IP assets.

- Foreign IP filings

Before a company takes up an aggressive program of filing IP applications in other countries, that is, before entering a new market abroad (by way of, say, exporting, or expanding overseas through off-shoring/outsourcing some of its activities, or by licensing, franchising or merchandising) an IP audit helps to sensitize the company to market-specific IP laws, rules, customs and practices affecting IP rights.

- Using the Internet for business purposes

Before having an Internet presence, doing an IP audit helps it to identify the needs of e-commerce and registration of appropriate domain names, etc.

- Significant changes in IP law and practice

Where there is a significant change or development in IP case law or statutory law in a relevant market it may necessitate review of existing products for possible infringement of the IP rights of others.

- Clean room procedures

The clean room procedure seeks to avoid infringement by ensuring that there is no "access" to copyrighted material of unrelated parties during software development project. Thus, an audit might be necessary to institute, or to review the adequacy of, clean room procedures used in the development of software products so as to reduce the risk of infringing third party copyright.

- Preparing for litigation

When considering or facing litigation, a company is required to show non-infringement and no access to the work, complete or confirm the chain of title of the underlying IP rights or otherwise complete the documentation of the relevant IP rights.

3. IP Audit team

(2) Who will conduct an IP Audit?

- a. There is no hard and fast rule as to who should conduct such an audit. However, for an audit to be effective, it is best done by a team that includes expertise in IP and representatives of the relevant technical areas of the company as may be appropriate for ensuring maximum effectiveness.

- b. The IP audit team should have a basic understanding of the product lines, the relevant business environment and the future plans of the company so that the audit remains focused on IP assets of maximum business relevance.

(2) External expertise

The audit team may or may not include external expertise. If it does, then before starting an IP audit, all external members in the audit team as well as all the internal staff members on the audit team should sign non-disclosure agreements.

LEARNING POINT 2: Preparing for an IP Audit

1. Clarity about the purpose

Before the actual conduct of an IP audit, it is a necessary precondition that it is clearly understood by all concerned why the audit is being conducted.

- (2) The situations that prompt an audit and the nature and scope of the audit will to some extent depend on why it is being conducted.

- (3) In addition, the amount of time and money available for conducting an audit

will have a bearing on the manner in which the audit is conducted and its eventual outcome.

2. Background research for preparing an audit plan

Once the purpose of the audit and the available resources for its performance are clear, a major preparatory step for conducting the audit is to understand the company, what it does and where it wants to go. It is an essential precondition for preparing an audit plan, which will be the basis of the audit.

(2) What is done in a background research?

- a. Gathering as much information as possible on the company and its way of doing business.
- b. Background research will be the basis of the audit and will provide the auditor(s) with the required background information for preparing a plan for conducting an audit that is comprehensive, focused, timely, and cost-effective.

(2) Major issues in a background research

- a. Internal and external relations and interactions

Who does the company regularly interact or intend to interact with: such as its employees, vendors, customers, consultants, independent contractors, joint venture partners, competitors, etc., and what role(s) actually IP assets play or would play in these interactions?
- b. Business strategy
 - How does the company do its business?
 - Does it have written policies in place concerning key aspects of the business?
 - Does it follow a certain business model?
 - Does it, for example, engage in e-commerce and, if so, how does it fit in with its overall business strategy?

(3) Importance of IP Assets

The overall importance of IP assets to the business will have a bearing on the audit.

- a. Where IP assets are relatively unimportant to the nature of the business as a whole, it might be sufficient merely to confirm that registered IP rights are in good standing and are held in the name of the company.
- b. On the other hand, where the company's principal assets are IP, it may be necessary to conduct a more thorough assessment of the company's IP portfolio and IP based activities.

(4) Status of IP management

- b. What is the company's overall approach to IP management?
- c. Does it have an in-house intellectual property manager or department and/or does it rely on outside IP expertise?
- d. Does it have an IP policy or strategy?
- e. How well informed are its staffs on IP matters?

(5) IP disputes

- b. Has the company been involved in infringement suits, whether as plaintiffs or defendants?
- c. Is the company involved in disputes or potential disputes that involve IP rights?

(6) Financing

Are the IP assets of the company tied to the financing of the company?

3. Preparing an IP Audit plan

Having done the necessary background research, the next step is to prepare the audit plan.

- (1) This will set out the purpose, the scope, how long it is expected to take, the budget, and who will be responsible for which area of the audit plan.
- (2) Generally, it will deal with the following:
 - a. The specific area(s) of the business to be covered - e.g., divisions, lines of business, affiliated or non-affiliated agency operations
 - b. The scope of the audit - e.g., only registered assets or a broader scope
 - c. The time table for the audit
 - d. The responsible person for each part of the audit
 - e. The form of the final audit report to be produced

LEARNING POINT 3: Conducting an IP Audit

2. Starting with a detailed check list

- (2) An IP auditor normally starts works from a detailed checklist, which is modified for the type and size of the company's business, relevant IP laws of the relevant countries, desired purpose(s), and the desired outcome(s) of the audit.
- (3) A good checklist minimizes the chances of leaving out one or more relevant steps from the process. Each member of the audit team should be provided the relevant part of the detailed checklist.
- (4) To produce a comprehensive, company-wide IP audit report reflecting the entire development and decision-making process for each of the company's products and processes, the audit team should collect, review, and organize

not only the IP information but also all the agreements that may affect the IP portfolio of the company. It may also have to do or get done relevant IP searches in all key markets.

More References 3-1: The steps of an IP Audit (in case of M&A)

2. M&A Non disclosure Agreement (NDA)

This agreement is designed to protect the confidentiality of information exchanged in connection with the consideration and negotiation of transaction and information exchanged in the course of a party's due diligence review of the other. NDA can be entered into independently as a stand alone agreement or it can be contained in the MOU for the proposed transaction.

3. IP Audit Preparation

(2) Researching background information on the business

(3) Preparing an IP audit plan defining the scope of the audit, target intellectual properties, time table of the audit and responsible person(s) for the audit

3. IP information analysis

A classical IP audit can be said to be focused principally on two concerns:

(1) Does the company own all the intellectual properties of concern?

(2) Does the company infringe on the intellectual property rights of others in the conduct of its business?

4. IP evaluation

In the IP evaluation stage a range of different valuation technologies, including replacement value, discounted cash flows and comparable sales can be used.

5. Negotiation

Based on the results of IP analysis and evaluation the proposed dollar range of the value of target intellectual property is exchanged on the negotiation table.

6. Contract formulation

2. Auditing different contracts/agreements

A key part of an IP audit is to identify and assess the adequacy of relevant provisions in all agreements that concern the protection of IP. These may include the following agreements:

(1) Licensing agreements

Review all licensing agreements to ensure that the company is continually in compliance with the terms of such licenses and whether they further the current and future business plans of the company.

(2) Assignment agreements

- a. Review assignments to determine whether the company was granted an assignment from every inventor or author of a work.
- b. Contact all licensors and assignors to determine whether any security interests or liens have been granted in the IP assets.

(3) Employment and independent contractor agreements

- b. Provisions governing the transfer of the IP rights from employees or contractors to the company
- c. Terms and conditions under which an independent contractor is allowed to use any copyrighted materials or rely on trademarks associated with the business
- d. The scope of the assignment itself
- e. Provisions regarding a waiver of moral rights in all copyright works
- f. Clauses setting restrictions on the disclosure or use of confidential information during or after the completion or termination of the employment/contract

- g. Provisions defining the employees' continuous obligation to assist in the protection of the IP rights
- h. The extent, scope and enforceability of non-compete and non-solicitation provisions

(4) Joint Venture & Collaboration agreements

When a company enters into various types of arrangements with suppliers, vendors, or customers to jointly develop or update the company's technology, the following must be kept in mind:

- b. Who owns the IP assets pre-dating or created through the joint venture or collaboration
- c. Define a system for identifying protectable intellectual property resulting from the cooperation
- d. Identify who pays for any application for registration of IP rights and any subsequent defense of the IP rights
- e. Determine the scope of IP contributed to the joint venture
- f. Determine which IP rights can be used by whom when the joint venture or collaboration ends.

(5) R&D Grants

Often government procurement contracts and government funded R&D agreements provide for ownership of IP rights in favor of the government or a government agency. Therefore, all such contracts should be closely reviewed for such limitations.

(6) Other agreements

Other kinds of agreements that could have a significant impact on a company's IP will include:

- b. Technology transfer, or know how, or technical assistance agreements
- c. Design and development agreements
- d. Settlement agreements
- e. Franchise agreements
- f. Royalty agreements
- g. Marketing agreements
- h. Distribution/Distributorship agreements
- i. Sales representative agreements
- j. Consulting or management agreements
- k. Outsourcing agreements
- l. Maintenance and repair agreements
- m. Material transfer agreements
- n. Programming agreements
- o. Source code escrow agreements (in connection with software), any documentation relating to "clean room" development of software, database licenses listings of computer software used by the company, including all versions and source and object code, flow charts and other software development documents

3. Auditing IP assets

After auditing agreements, the IP Auditor starts to audit the IP assets of the company. There are four steps for this stage.

(1) Identifying and recording IP assets

In this step, the assets will be initially catalogued and a description will be provided.

- a. It is the basic stock taking exercise that will serve to create or update the intangible asset portfolio of a company.
- b. It will serve to inform the company of its IP assets, which may or may not be used or used differently depending on the goals of the business.

(2) Determining ownership and legal status of the IP assets

The assets will be evaluated as to whether they are owned by the company and if so, whether they are or should be, protected as IP rights.

- a. It will include assets created by the company itself, and those that are acquired or used with or without the express consent of third parties.
- b. It will enable the company to see where, if any, ownership problems exist, why they exist and what should be done to prevent or solve such ownership issues.
- c. It will also reveal whether adequate systems are in place to protect these assets or, alternatively, whether and what internal obstacles exist to their protection, and whether and how these may be overcome.
- d. The main subjects the auditor should note with respect to each asset.
 - Ownership: The nature of the company's ownership interests (e.g., sole or joint ownership, exclusive or non-exclusive license, the royalty or other costs associated with the license and the estimated

legal duration and period of technological usefulness of the asset) and whether the nature of the interest is in doubt.

- Restrictions on use: Any restrictions on the use of the asset (e.g., product or agency-related restrictions, territorial restrictions, assignment or transfer restrictions, time restrictions, non-compete clauses)
- Relevance to business: The relevance of the asset to the core business of the company (e.g., whether the asset is a critical asset or an ancillary asset) and any connection with other key non-IP assets of the company, such as key staff members
- Encumbrances: Whether the asset has been pledged, or in any other way legally encumbered.
- Infringement: The potential for a third party claim of infringement or damages due to the company's use of the asset.

(3) Detecting infringement of IP rights

Review company's policies with respect to the enforcement of its IP rights as well as its own systems for respecting the legal rights of others.

- a. If the assets are owned by the company then an audit may provide information as to whether they are infringed by others.
- b. The IP audit may provide information as to assets that the company thinks it owns but in reality it does not and could give rise to problems of third party infringement.

(4) Taking necessary steps for creating and maintaining IP assets

- a. An IP audit will reveal where there have been lapses in the administrative, legal and regulatory procedures necessary for creating and maintaining IP assets.
- b. An IP audit will provide the necessary impetus to take care of such requirements by creating or improving the relevant in-house policies, procedures and management practices.

LEARNING POINT 4: After completing an IP Audit

2. Using the results of an IP Audit

(1) IP analysis

- a. Evaluate and analyze whether the IP assets are serving the strategic objectives of the company and, if not, what should be done to change that.
- b. One technique that would help at this stage is to divide the results of the IP inventory into three groups:
 - Group 1: Techniques, innovations, and ideas that are essential to your products and services, and to the markets your company has decided to serve
 - Group 2: Intellectual assets of real potential but not necessary to your company
 - Group 3: 'Assets' that seem, on balance, to have no great value to your company or to anyone else.

(2) Evaluating IP assets

- a. The results of IP audit will be the basis for evaluation of IP assets.
- b. Properly valuing the benefits that may accrue from any IP asset requires an assessment of:
 - Speed with which a particular market values and devalues that type of asset
 - The cost of developing alternative IP assets to fulfill the same or comparable market needs
 - Royalties being paid for similar assets
 - Market recognition of the asset
 - The cost of developing such recognition if it is deficient

(3) Overall review on IP assets and IP policy

An IP audit will provide the management of the company with the basic information as to whether its IP assets are being used to attain the company's strategic objectives.

- a. The management has to check if its business objectives, business model and its IP management policies are in alignment with each other.
- b. This can be identified by evaluating the relevance and tangible benefits obtained by using or leveraging IP assets that a company owns or has access to.

(4) Preventing or being prepared for litigation

- a. A carefully conducted audit may result in a determination that the company's use of its IP violates the rights of a third party.
- b. Advance warning of infringement allows the company to cease infringing activities, obtain a license or at the least, evaluate its liabilities and defenses.

(5) Business strategy formulation

- a. At this stage of an IP audit the management matches its newly established inventory of IP assets to its strategic business objectives.
- b. The objectives include:
 - The types of products or services on which the company intends to focus its resources
 - The markets it intends to serve
 - The return on investment it requires in order to satisfy its owner or shareholders.

- c. The results of the IP audit may add a new dimension to strategy discussions and may lead to new business strategies for the domestic or export markets.

More References 4-1: Building IP value through IP Audits

Dynamic IP asset managers have used IP audits to build corporate value in many different ways. Some of the more popular approaches are discussed below:

1. Building value in IP asset creation
2. Building value of existing IP assets.
3. Reducing costs of third-party IP claims.
4. Building value from product markets using IP assets.
5. Creating non-core revenue streams.
6. Creating additional revenue through core business licensing.
7. Building value in corporate transactions.
8. Reducing costs of unused IP assets.
9. Receiving tax deductions for IP asset donations.
10. Reducing new product development costs (product clearance).
11. Evaluating the IP assets of an acquisition or investment target (due diligence).
12. Assessing business direction and strength.
13. Discovering unclaimed business opportunities.
14. Discovering business expansion opportunities.

*source: <http://www.buildingipvalue.com>

2. From IP Audit to IP asset management

(1) Formation of IP asset management team

- b. An IP asset management team is charged with managing the knowledge portfolio and is overseen by a senior executive.

- c. The team is composed of managers from various disciplines who collectively understand the firm's intellectual assets and have had a hand in developing them.

(2) Creating an IP culture

For creating an IP culture, proper training on IP best practices should be provided to all the staffs. All training programs should be reviewed, to verify if they include anything or enough on IP asset management.

(3) IP policy monitoring

The existence and adequacy of IP asset management policies, procedures and practices within a company should be continuously reviewed and monitored. And it should be verified that they are effectively communicated to all the employees.

QUIZ

Q1. Identify the incorrect statement:

- 1) In conducting an IP audit, the auditor must follow a standardized and comprehensive checklist and should not deviate from it.
- 2) To identify and assess the adequacy of relevant provisions in all agreements that concern the protection of IP is a key part of an IP audit.
- 3) For an audit to be effective it should be undertaken by a team that includes expertise in IP, the relevant technical areas as well as from other relevant areas of the company.
- 4) IP audit will enable the company to see what should be done to prevent IP ownership disputes.

Answer : 1)

It is important to follow a standardized check list so that nothing will be omitted inadvertently in undertaking an IP audit but such checklist should necessarily be adapted to the particular industry, company, purpose and scope of the audit. Further, the actual questions to be asked in an IP audit will often evolve from the preliminary findings of the audit. Therefore, details of every audit will be peculiar to its own situation and circumstances.

Q2. Identify the incorrect statement:

- 1) IP audit is a systematic review of IP owned, used or acquired by a business so as to assess and manage the risk, remedy problems and implement best practices in IP asset management.
- 2) IP audit is an evaluation of all the IP assets owned by the company in terms of evaluating its strengths, weaknesses, opportunities and threats.
- 3) An IP audit helps a company undertake an evaluation of its own IP assets and liabilities.
- 4) A valuation of IP assets may be a part of an IP audit.

Answer : 3)

An IP audit does not only involve an evaluation of IP assets owned by a company but also all other IP assets that have been licensed or used without the approval of their rightful owner(s).

Q3. Identify the incorrect statement:

- 1) An IP audit does not generally concern itself with the issue of whether the company is violating the intellectual property rights of others.
- 2) An IP audit helps a company analyse whether its IP assets are serving its strategic objectives.
- 3) The results of an IP audit may lead to new business strategies and sometimes to entirely new business models.
- 4) An important goal of an IP audit is to rectify defects in IP ownership and title.

Answer : 1)

Finding out that the company is violating the IPR of others is useful information to have allowing a company to either stop the violation, seek a license, or design around an invention if the violation was of a patent. It is therefore an integral and important part of an IP audit.

MODULE

11

IP Valuation

MODULE 11. IP Valuation

OUTLINE

LEARNING POINT 1: What is IP Valuation

1. Definition of an asset
2. Value of an asset
3. Definition of IP valuation
4. IP valuation triggers

LEARNING POINT 2: IP Valuation methods

1. Cost method
2. Market method
3. Income method

LEARNING POINT 3: Preparing for IP valuation

1. IP audit in IP valuation

LEARNING POINT 4: How to value IP assets using DCF method: Step by step

1. Main concept
2. Projecting income stream (Cash Flow)
3. Determining the Remaining Economic or Useful Life (RUL) of the IP asset
4. Considering risks (Discount Rate)

LEARNING OBJECTIVES

1. You will understand what is meant by assets, IP assets, value and IP valuation.
2. You will learn the reasons or the circumstances that call for the conducting of an IP valuation.
3. You will understand the essence of and the differences between the three commonly used valuation methods such as cost, market and income methods, including the real option method.
4. You will go through each step of the discounted cash flow method (DCF).

LEARNING POINT 1: What is IP Valuation

1. Definition of an asset

An asset is a resource that is controlled by an entity (such as a company or a business) as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets; or reduction in costs) are expected.

Basically, the wealth of a business comprises of the following types of assets

Wealth = Working Capital + Fixed Asset + Intangible Assets

Working Capital : Working capital refers to the excess of current assets (cash, short-term investments, accounts receivable, inventories, prepaid expenses, etc.) over its current liabilities (trade accounts payable, current portion of long-term debt, income taxes, withholding taxes, accrued liabilities, etc.). It is also known as net current assets.

Fixed Asset : Fixed assets which include plant, machinery and equipment, land and buildings, office furniture and equipment, computers, vehicles and other tangible property used by a business but not converted into cash in day-to-day business. Traditionally, fixed assets were considered to be the brick and mortar of a business and were seen as the main contributors to its wealth/value.

Intangible Assets : Intangible assets are the non-physical property of a business. Traditionally, they were considered to be the 'Goodwill' of a business, that is, the amount paid for a business in excess of the fair value of its identifiable net assets. A wide range of intangible assets, such as customer's loyalty, well respected business name/strong reputation, calibre and morale of employees, IP assets, etc, were clubbed under 'Goodwill.'

Intellectual property (IP) assets?

IP assets are a sub-set of intangible assets and distinguished from other intangible assets by the fact that these are created by law. As such, IP assets are legally protected and can be legally enforced. These can be independently identified, are transferable and have an economic life (in contrast to their legal life, which is generally longer than their economic life).

IP assets include patents, industrial designs, trademarks, copyright and trade secrets.

Legal perspective: An IP asset can be defined in terms of particular qualitative characteristics or standards (such as that of novelty, originality).

Economic perspective: An IP asset can be defined in terms of the economic benefit linked to the IP asset.

For example, a patent that has not contributed to the production or protection of income, has no economic value, even though it has legal existence.

2. Value of an asset

The value of an asset is **the value of the future economic benefits** it brings. The value of an asset, whether tangible or intangible, can be estimated. Some assets are easier to value than others, and some valuations are more precise than others. Monetary or financial valuation is the process of determining or measuring reliably the value or worth of an asset in certain circumstances, the cost or price of an asset may be a good indicator of its value.

(1) Value of an IP asset?

The value of an IP asset derives, in essence, from **its ability to exclude competitors from a particular market**. Whilst the legal right grants exclusivity or the right to exclude, the economic right is based on exclusivity of use, that is, the ability to control the use of the IP asset.

For an IP asset to have a quantifiable value, it should:

- generate measurable amount of economic benefit to its owner/user.
- enhance the value of other assets with which it is associated.

(2) How to derive value from an IP asset

- a. Direct exploitation of the IP
- b. Through sale or licensing of the IP
- c. Even by not exploiting an IP asset (i.e., by merely owning it), it may be possible to add value, for example, by:
 - minimizing the negotiating power of customers,
 - offsetting supplier power,
 - mitigating rivalry,
 - raising barriers to entry by competitors,
 - reducing the threat of substitutes.

Learn More: Price and Value

Price

The price of an IP asset represents the amount of money for which the ownership of that IP asset would be exchanged between a willing buyer and a willing seller.

Price is the monetary amount at which an asset trades in the market.

It is typically defined as what a buyer is willing to pay, in an arm's-length transaction, based on his perceived value of the asset.

The determination of price may be influenced by many factors, which include time, demand, reasons for selling, synergies for buyer, negotiation skills of the parties involved, etc.

Value

The value of an IP asset represents the potential future economic benefits to the IP owner or authorized user.

For example, for a purchased patent, presumably, the benefits (value) to the buyer exceed not only the price paid but also many other costs that may be incurred by the buyer in the process of buying (such as time costs and transaction costs) or in exercising the option of buying the patent (such as opportunity costs : not being able to do or buy something else if the patent is purchased).

3. Definition of IP valuation

IP valuation is a process to determine the monetary value of subject IP.

(1) Prerequisites for Undertaking IP Valuation

To be able to do the valuation of an IP asset, it must be separately identifiable.

- a. The IP asset must be subject to specific identification and a recognizable description.
- b. There should be some tangible evidence or manifestation of the existence of the IP asset (e.g., a contract, a license, a registration document, a computer diskette, a set of procedural documentation, a listing of customers, recorded on a set of financial statements, etc.)
- c. It should have been created or have come into existence at an identifiable time (or time period) or as the result of an identifiable event.
- d. It should be capable of being legally enforced and legally transferred.
- e. It should be capable of having its income stream separately identifiable and isolated from the contribution of other assets employed in the business.
- f. It should be capable of being sold, without selling the other business assets of the enterprise to the same buyer.
- g. It should be subject to being destroyed or to a termination of existence at an identifiable time (or time period) or as the result of an identifiable event.

(2) Factors influencing IP Valuation

- a. Premise of value : The value of an IP asset would depend on the context or circumstances in which it is being valued.
For example, is it being valued in the context of a 'going concern' where it is 'alive and well' and performing its job, or is it being valued in a context of a going concern but where it is not being used? Similarly, in the case of liquidation, is it a forced liquidation or an orderly disposition of assets? The value will be different in each of these four situations.
- b. Standard of value: Learn More
- c. Reasons for, or purpose of, the valuation
- d. Time or date of valuation
- e. Access to and reliability of relevant data and information
- f. Valuation method(s) applied and assumptions made while applying a

- particular valuation method
- g. Legal, tax, financial, or other business circumstances
- h. Nature, scope and strength/validity of the underlying IP asset
- i. infringement or freedom to operate issues

Learn More: Standard of value

Understanding the concepts of fair market value and fair value, the most commonly used standards of value, is important when undertaking an IP valuation exercise.

Fair market value (Market value)

Fair market value can be defined as the price at which an asset or service passes from a willing seller to a willing buyer.

- Premise of value : Exchange

It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts.

Fair value (Fair price)

Fair value is seen as appropriate for use in post transaction purchase price allocation.

- Premise of value : Use

Fair value is based on the assumptions that market participants would use when pricing the asset.

Whereas fair market value is seems to be more appropriate when used in the premise of value in exchange, fair value is often based on premise of value in-use. In common situation, IP valuation is a process to valuate the fair market value of an IP asset.

4. IP valuation triggers

There are numerous individual reasons or motivations for conducting an IP valuation. The valuation triggers refers to the reason or purpose of the valuation. These include the following:

Classification	Valuation trigger
Transaction	Licensing of IP assets; franchising
	Sale or purchase of IP assets
	M&A; divestures, spin-offs
	Joint venture or strategic alliance
	Donation of IP assets
Enforcement of IP rights	Calculation of damages when IP right is infringed
Internal use	Investment in R&D
	Internal management of IP assets
	Strategic financing and/or raising equity/capital
	Investor relations
Other purposes	Financial reporting
	Bankruptcy/liquidation
	Optimizing taxation
	Insurance of IP assets

More References 1-1: IP Valuation Trigger

1. Transaction

1) Licensing of IP assets; franchising

Before conducting negotiations for licensing-in or licensing-out of IP, a thorough understanding of the value of the IP assets ensures more informed negotiation and decision-making concerning the terms and conditions of the proposed license, especially in determining fair and robust royalty rates for optimal exploitation of the IP asset. In franchising too, both the franchisor and the franchisee require a thorough understanding of the value of the IP assets, notably trademark(s) and trade secrets or know how.

2) Sale or purchase of IP assets

Before selling or buying IP assets, proprietary technology or a company, one needs to know the value of the relevant IP assets to decide whether to proceed with the sale or purchase and, if so, at what price.

3) Merger & Acquisition (M & A); divestures, spin-offs

Often, the primary reason for considering an M & A transaction is the value of the IP assets of the target company. In such a case, one should consider whether the stand-alone purchase or licensing-in of the relevant IP assets would suffice. If not, then only one should proceed to consider an M & A transaction. In both cases, IP valuation is crucial to making an informed decision. Valuation of the IP assets of the target company often identifies additional value that significantly enhances the final sale or purchase price. Doing so also ensures that deals are priced and structured by keeping IP risks and value realization opportunities in mind. Further, IP valuation enables the parties to take an informed decision on the acceptable cost of capital or deciding on financial leverage strategy to be followed. Understanding fully the strategic fit and value extraction opportunities of the target's core and non-core IP assets facilitates post-deal IP integration and maximization of the returns from the acquisition. It also influences positively the resulting company's value and share price.

4) Joint Venture or Strategic Alliance

Before contemplating entering into a joint venture or other types of strategic alliances one should make a comparative analysis of the value of IP assets involved in the various options under consideration. In structuring a joint venture deal, the parties involved should understand as to how much value IP assets contribute to it. The same is true of a strategic alliance, as both parties would be well placed to take advantage of the deal if they are not only aware of the technological contribution of the IP assets but also of their monetary value.

5) Donation of IP Assets

When an enterprise owning IP assets is not using the IP assets in its core business or is not usefully licensing-out, whether the IP assets are core or non-core to its business, it should consider donating such IP assets, as donation of IP assets may attract significant tax benefits in some countries. For calculating the tax benefit, it is important to value such IP assets. Tax authorities would not be interested in understanding how the value of any donated IP asset was calculated but may also prescribe rules as to how the value of an IP asset should be calculated.

2. Enforcement of IP rights; Calculation of Damages

Knowledge of the value of an IP asset influences the decision about the strategy to be used when it is infringed. IP valuation enables an entity to decide whether to pursue the infringement through a court action (by filing a suit for infringement), take recourse to alternative dispute resolution mechanisms, such as mediation or arbitration, or consider licensing of the IP asset to the infringer. In the event of a successful infringement prosecution IP valuation plays an important role in calculating damages, whether those

damages are based on an assessment of the infringer's profits or a reasonable royalty.

3. Internal Use

1) Investment in Research and Development (R&D)

While considering whether to invest in R & D, the value of potential IP assets may be a key factor in taking a decision.

2) Internal Management of IP Assets

IP valuation helps in budgeting and resource allocation decisions. For example, if a company is spending a significant amount of money on internal R&D but is losing ground to competitors due to slow or late product introductions, it may need to rethink its R&D strategy and processes. In today's knowledge economy, more companies are turning to an open innovation model of actively buying and licensing innovations from other entities to supplement or even replace internal R&D. During an IP audit, the review of an IP portfolio provides an opportunity to identify IP assets whose value, for example, has become insignificant or markedly decreased. If such IP assets are used only in a non-core business activity or their strategic importance has become insignificant, it may be decided as to whether to continue maintaining such IP assets, license them, sell them or let these IP assets lapse. Thus, an informed decision to discontinue payment of maintenance fees may lead to substantial cost savings. IP valuation also provides strategic guidance for new product development, brand-extensions, line-extensions, managing foreign filing and prosecution costs, etc.

3) Strategic Financing and/or Raising Equity/Capital

Despite challenges in perfecting a security interest in IP assets, some banks are relying on IP assets to secure debt financing. In the past, for monetizing an IP asset, meant taking steps to create a product or secure a royalty stream. With an emerging secondary market for IP assets, new ways to monetize IP assets are being devised. For example, in the recent past, revenue streams linked to a portfolio of copyright or patent assets have provided the basis for creating IP asset backed securities. For such IP asset-backed securitization, the valuation of an entity's IP assets is crucial. As a result, in recent years, IP financing deals have been completed through a number of financial vehicles – securitization, bank debt, hedge funds and private equity.

Venture capitalists are beginning to look at patent strategies and patent portfolios. Usually, they do not engage in quantitative valuation of IP assets or of portfolios of IP assets. Rather venture capitalists prefer to value the company as a whole and consider the role of IP in that process.

Asset-backed securitisation is the process of pooling homogeneous financial

assets and issuing securities backed by the financial assets into the capital markets.

It relies on the structured financing and characteristics of collateral to achieve creditworthiness. Pools of assets are transferred into a special purpose vehicle (SPV). Securities are rated on the strength of the legal structure and level of credit enhancement, based on historical performance.

4) Investor Relation

In the case of a listed company, an IP valuation helps to communicate the value of its IP assets to capital markets, supports its share prices, and helps to obtain funding from investors. Valuation of IP assets is also required for initial public offering (IPO) documents.

4. Other Purposes

1) Financial Reporting

The recognition of the increasing share of IP assets in the total market value of enterprises has contributed to the change in the way the accounting community has begun to treat IP assets in financial reporting. Historically, accounting practice did not recognize the separability of IP assets from other forms of intangible assets and, hence, IP assets were not included in the balance sheets of a company. However, the international accounting standards board (IASB) now recognizes acquired and identifiable intangible assets (i.e., IP assets) and requires all acquired IP assets to be recognised as assets, separately from goodwill, on the balance sheet of the business acquiring the IP assets.

The value of internally generated IP assets continues to be left out of the balance sheets of companies. The reason for excluding internally generated IP assets is that any value reported on the balance sheet has to be objective, reliable, and verifiable/auditable. Any asset whose value is calculated on the basis of predictions of future cash flows and on the basis of estimation of an "appropriate" discount rate is considered to be too subjective for financial reporting purposes.

In many countries, acquired intangible (including IP) assets are amortizable provided their useful life to business, or income generation, is of a limited duration, and provided the useful life can be accurately estimated. IP assets, such as trademarks, with an indefinite useful life must undergo an annual impairment test. When a brand is acquired, IP valuation is done for the initial valuation as well as the periodical impairment tests for the derived values to be included in the balance sheet.

2) Bankruptcy/Liquidation

In a bankruptcy, the IP assets of the bankrupt company have to be valued, as also its physical assets, in determining how those assets are to be

distributed.

3) Optimizing Taxation

In devising ways to optimize the tax to be paid by a company, its assets, including its IP assets, require to be valued. IP assets create numerous opportunities for tax planning in both third party transactions as well as internal strategies such as cross-border transfer pricing and centralizing the ownership of IP assets in IP holding companies.

The internal revenue service or other tax authorities would like to know as much as possible about the basis for any value determination used when allocating portions of the purchase price associated with the acquisition of a company.

In the past, many companies had allowed their affiliates to use their trademarks for little or no charge, but as the realization has grown of the profit generating powers of trademarks, companies have increasingly taken to charging royalties for their use. This has alerted tax authorities around the world, with many now asking companies to charge their subsidiary operations for the use of their trademarks. Valuation of IP assets helps in assessing fair transfer prices for the use of IP assets, including brands, to subsidiary companies.

4) Insurance of IP assets

A new market is opening up for the insurance of IP assets with a number of major insurers in the developed countries creating products tied to the capital value of IP assets, especially trademarks/brands.

LEARNING POINT 2: IP Valuation methods

1. Cost Method

(1) Main concept

Cost method is based on the intention of establishing the value of an IP asset by calculating the cost of developing a similar (or exact) IP asset either internally or externally.

It seeks to determine the value of an IP asset at a particular point of time by aggregating the direct expenditures and opportunity costs involved in its development and considering obsolescence of an IP asset.

For example, if the IP owner has data pertaining to the cost it incurred for the preceding five years and wants today's value of that IP, the cost incurred in its development, adjusted to inflation, will provide a current value which, in turn, will be further adjusted for obsolescence to arrive at a final opinion of its value.

Obsolescence

Obsolescence includes physical deterioration, and functional, technological and economic obsolescence, however, physical deterioration generally does not apply to IP because IP is intangible. Functional, technological, and economic obsolescence do affect the value of IP.

- Functional obsolescence: It occurs when the IP user must incur excess operational costs to use the IP versus current alternatives, which may be state of the art.
- Technological obsolescence: It occurs when technological forces render the IP worthless. For example, patents for a next generation computer floppy disk drive are likely to be worthless because there are better technological options already on the market.
- Economic obsolescence: It occurs when the use of the IP in its highest and best form cannot provide an adequate return on investment. This can occur in IP easily because IP is generally unique and may have little use outside of a particular function.

The cost method is generally the least used method as, in most cases, it is considered suitable only as a supplement to the income method (if the valuation is not for bookkeeping purposes). The method is normally used in situations where the subject IP is currently not generating any income.

(2) Reproduction cost method vs. Replacement cost method - ①

There are two variants of the cost method: the reproduction cost method and the replacement cost method.

Reproduction cost method	Replacement cost method
<p>Reproduction cost contemplates the construction of an exact replica of the subject IP.</p> <ul style="list-style-type: none"> - It is the total cost, at current prices, to develop an exact duplicate or replica of the subject IP. - This duplicate asset would be created using the same or similar materials, standards, design, layout, and quality used to create the original IP asset. - The reproduction cost method does not account for changes in technology, higher utility from other materials, and other factors. 	<p>Replacement cost contemplates the cost to recreate the functionality or utility of the subject IP, but in a form or appearance that may be quite different from the subject IP.</p> <ul style="list-style-type: none"> - It is the total cost, at current prices, to create an asset having equal functionality or equal utility to the subject IP. - However, the replacement IP may have greater functionality and/or utility than the subject IP. - The replacement IP asset would be created with modern methods and developed according to current standards, state-of-the-art design and layout, new technology and the highest possible quality. - If the replacement IP asset is better in some way than the subject IP asset, it may yield more satisfaction than the subject IP asset. This fact must be reckoned with while making an estimate of obsolescence.

An important requirement for both these methods is that the costs be determined as of the valuation date (whether that be today's date or another date) and not the historical expenditures that actually took place.

For example, many factors relevant to the asset's development may have once been proprietary, but are now in the public domain, and could therefore be acquired at a much lower cost than was actually included initially. Also, research methods may have improved in the interim, to the point where only half of the historical research time is needed to accomplish the same achievements, and this also would affect the value of the asset.

(2) Reproduction cost method vs. Replacement cost method - ②

a. The cost method could be summarized as follows:

First, calculate the replacement cost through the formula:

$$\frac{\text{Reproduction Cost} - \text{Curable functional and technological obsolescence}}{\text{Replacement cost}} =$$

An IP's deficiencies are considered curable when the prospective economic benefit of enhancing, or modifying the IP, exceeds the current cost of the material, labor and time needed to change it.

Next, use the replacement cost to estimate the IP's value.

$$\frac{\text{Replacement Cost} - \text{Economic obsolescence} - \text{Incurable functional and technological obsolescence}}{\text{Value}} =$$

An IP's deficiencies are considered incurable when the current costs of enhancing or modifying the asset (in terms of materials, labor and time) exceed the expected future economic benefits of improving it.

b. Situations where the reproduction cost method is used include:

- litigation purposes
- measuring return on investment (ROI)
- tax reporting purposes (for embedded computer software)

c. Situations where the replacement cost method is used include:

- estimating a target price prior to negotiations for purchasing an IP asset
- calculating a basis for suitable royalty rates
- determining a transfer price.
- establishment of a consumer brand from 20 years ago in today's market, which contains many new
- direct-to-consumer options such as the Internet and Podcasting.

The decision on which variant should be used will be determined by (1) the

type of IP asset to be valued, (2) the date on which the valuation is to take place, and (3) the context in which the valuation is made.

(3) Advantages and Disadvantages of cost method

Advantages	Disadvantages
<p>Cost method is a useful method when:</p> <ul style="list-style-type: none"> - Subject IP assets can be easily reproduced, for example, software - the income stream or other economic benefits associated with the asset being valued cannot be reasonably and/or accurately quantified - there is no economic activity to review, such as early-stage technology that is not yet producing revenue - there is no direct cash flow being generated from use of the subject IP assets - the IP forms part of a larger group of assets when other valuation methods are not appropriate; - calculating a floor or minimum value/price for an IP asset however, the floor so calculated may be inaccurate when the cost includes elements that do not add value to the IP asset - establishing a maximum price for buying an IP asset when many candidates for substitution are available. 	<ul style="list-style-type: none"> - Cost method does not account for wasted costs- often vast amounts sums spent on pharmaceutical research projects result in no benefit. - It does not consider the unique and novel characteristics of IP. Therefore, it usually does not incorporate the expected economic benefits or the income generating potential of the IP asset. - It does not take into account the factors of risk and uncertainty associated with realizing the economic benefits associated with the IP asset. - It does not directly incorporate the trend in benefits associated with the IP. An IP asset that provides economic benefits with an increasing growth rate can be far more valuable than which displays a downward trend. - The duration over which the economic benefits will be enjoyed is yet another element not considered in this method, as the Remaining Economic or Useful Life (RUL) of the IP is a vital component in valuation. - It may not provide an indication of

	<p>the "highest price obtainable" in the open market, in the context of the "fair market value" standard.</p> <ul style="list-style-type: none"> - This is because potential purchasers, may be willing to pay a premium over the cost they would incur in attempting to replicate the property, to become the proprietor of a novel product on a timely basis.
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2. Market Methods

(1) Main concept

The market method is based on comparison with the actual price paid for a similar IP asset under comparable circumstances.

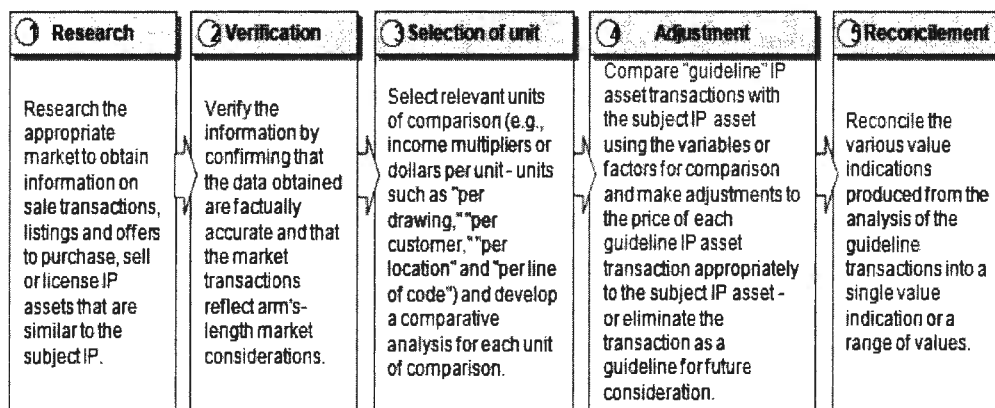
To do a valuation with this method, one needs to have:

- An active market (price information, arm's length)
- An exchange of an identical IP asset, or a group of comparable or similar IP assets
- If the IP assets are not perfectly comparable, variables to control for the differences

The more information available on the nature and extent of rights transferred, including the detailed terms and conditions, the circumstances of the transaction (e.g., cross-licence, licence agreed in settlement of litigation), the more accurate the valuation will be.

This method is much more likely to reflect market perceptions and moods than a valuation based on the income method.

The basic steps of the market method



Learn more: Analysis of comparability: Type of variables or factors to be considered

- Timing
- Nature of IP asset (e. g., patent. or trademark)
- Scope and status of legal protection
- Strength of the IP rights; uncertainty re validity of IP rights
- Duration
- Exclusivity
- Territory
- Geographical coverage of the IP asset
- Extent to which the IP asset contributes to market demand for the final product
- Availability of substitutes
- Licensor's anticipated profitability from use of the IP
- State of development of the IP asset
- Circumstances in which a previous licence was agreed can be significant
- Product of willing negotiations or a court-imposed solution
- Cross-licensing
- Profitability
- Risks
- Industry
- Market size and characteristics
- Growth outlook for relevant products
- Channels of distribution
- Other barriers to entry and exit
- Company structure
- Management matters (transparency; bounded rationality)

Sources of Comparables and "Industry Standard" Data

- Statutory/Official filings (SEC filings)
- Surveys
- Licensing publications, valuation books
- Published court cases
- Shopped term sheets
- Published agreements
- Proprietary databases (Royalty Source, ReCap)
- Consultants

(2) Advantages and Disadvantages of market method

Advantages	Disadvantages
<ul style="list-style-type: none"> - Simplicity - Use of market based information - Can be very useful if exact comparables are available (e.g., license agreements related to the same technology) - Often used to establish "ballpark" values, especially for royalty rates - Favored by tax authorities for deals with affiliates - Best for deriving inputs for the Income method 	<ul style="list-style-type: none"> - By definition, an IP asset is unique. It is not possible to find an exactly alike or even a similar or comparable IP asset. Even if that were possible, it is generally not possible to have readily available information, which could be used for valuing the subject IP asset. - Market method ends up comparing the general information available in the <div data-bbox="682 1209 1157 1495" style="border: 1px solid black; padding: 5px; margin: 5px 0;"> Due to the depth of the required information to ensure comparability, often the only good transactional data is from a transaction where there is complete access to the legal agreement. Generally, however, such IP transactional data is highly confidential. </div> - market; it is unable to consider specific factors leading to a specific transaction. - The time factor may affect the usefulness of historical databases. - It is a difficult method to use for comparing deals with multiple forms of compensations (e.g., equity, milestone payments, running

	<p>royalties)</p> <ul style="list-style-type: none"> - Many "hidden" deal factors (e.g., strategic buyer "premiums") cannot be considered. - Outside influences that affect royalty rates of IP assets, (e.g., fame, when celebrities use their images/names as trademarks), cannot be considered.
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3. Income method

(1) Main concept

The income method values the IP asset on the basis of the amount of economic income that the IP asset is expected to generate, adjusted to its present day value. This method is the most commonly used method for IP valuation.

How to determine economic income

- a. Project the revenue flow (or cost savings) generated by the IP asset over the remaining useful life(RUL) of the asset.
- b. Offset those revenues/savings by costs related directly to the IP asset. Costs: labor, and materials, required capital investment, and any appropriate economic rents or capital charges
- c. Take account of the risk to discount the amount of income to a present day value by using the discount rate or the capitalization rate

Different measures of economic income may be relevant to the various income methods. Some of these measures include the following:

- Gross or net revenues;
- Gross profit;
- Net operating income;
- Pretax income;

- Net income (after tax);
- Operating cash flow;
- Net cash flow;
- Incremental income;
- Cost savings.

Given the different measures of economic income that may be used in the income approach, an essential element in the application of the income method is to ensure that the discount rate or the capitalization rate used is derived on a basis consistent with the measure of economic income used.

(2) Direct capitalization vs. Discounted Cash Flow

The various income methods may be grouped into the following two analytical categories:

Direct capitalization

The valuer estimates the appropriate measure of economic income for one period (i.e., one period future to the valuation date) and divides that measure by an appropriate investment rate of return (Capitalization rate).

The capitalization rate may be derived for a perpetual period of time or a specified finite period of time, depending upon the valuer's expectations of the duration of the economic income stream.

Discounted cash flow (DCF)

(Discounted future economic benefits)

The valuer projects the appropriate measure of economic income (cash flows) for several discrete time periods into the future.

This projection of prospective economic income (cash flows) is converted into a present value by the use of a present value discount rate.

The present value discount rate is the investor's required rate of return over the expected term of the economic income projection period.

(3) Advantages and Disadvantages of income method, especially DCF

Since DCF method is the most frequently used, let's look over the advantages and disadvantages of DCF method as follows:

Advantages

The DCF method is easiest to use for IP assets whose

- cash flows are currently positive, and
- can be estimated with some reliability for future periods, and
- where a proxy for risk that can be used to obtain discount rates is available.

It best captures the value of IP assets that generate relatively stable or predictable cash flows.

It forces you to think about the underlying characteristics of the firm, and understand its business. If nothing else, it brings you face to face with the assumptions you are making when you pay a given price for an asset.

Disadvantages

The DCF method does not explicitly account for the total riskiness of these cash flows but only for the systematic component of that risk in the form of market determined discount rate.

It assumes that the investment in the IP asset is irreversible, irrespective of the circumstances in the future. In brief, the DCF method does not accommodate the option like nature of certain corporate investments and ignores managerial flexibility.

It does not capture the unique independent risks associated with an IP

asset such as patent. All risks are lumped together and are assumed to be appropriately adjusted for in the discount rate and the probability of success, rather than being broken out and dealt with individually (i.e., such as legal risk, technological risk, infringement, etc.)

It fails to consider dependencies on patents owned by others.

LEARNING POINT 3: Preparing for IP valuation

1. IP audit in IP valuation

The valuation process necessitates gathering much information about the IP assets as well as in-depth understanding of economy, industry, and specific business that directly affect the value of the IP.

This information can be obtained by conducting ('even driven') IP audit and background research as well.

Necessary information for IP valuation

a. IP related information

- What IP assets are owned by the business?
- Are IP assets owned by others used (with or without permission) by the business?
- Are the IP assets owned or used by the business, which should or could be registered, duly registered in all the relevant jurisdictions? If not, what steps/measures should be taken to ensure these IP assets are duly protected in all relevant jurisdictions?
- Who owns the existing IP assets: Is it the company or one or more employees, consultants, or its business partners?
- Are there any factors which would affect the value of IP, e.g., is the remaining legal life too short or is there a substitute product or an

alternative patented technology?

- What is the likelihood of a third party claiming ownership of the IP asset of the enterprise?
- Is there Freedom to Operate? That is, are there any existing IP assets owned by a third party that could block the development or effective use of the IP asset of the enterprise?
- For a patent, claim construction is a paramount issue that affects the valuation of IP from three perspectives, i.e., whether
 - : the claims define the subject matter in terms that create commercial value;
 - : the claims are valid and enforceable; and
 - : the owner of the IP should have Freedom to Operate within the scope of the claims.
- Is the strength of the IP asset supported by other IP assets without which it significantly loses its strength, e.g., a patent supported by trademark, patent supported by industrial designs, trade secret supported by a trademark, etc?

b. Market related information

- What is the market strength of the IP asset? An established trademark, for example, would have a higher value than a newly created trademark. If the underlying IP asset is a patent, its remaining economic life and the possibility of it being challenged as infringing other existing patent(s) will influence its value.
- What is the level of competitiveness of the IP asset in the marketplace, i.e., are there other strong trademarks, patent or trade secret-based products which are similar or can be considered as alternative/substitute products?
- Is the strength of the IP asset maintained by aggressive marketing strategies or conventional marketing strategies?
- In most cases, an IP asset that has wider (regional or international) coverage is more valuable than one which is protected in only one country.

Normally, broader geographical scope of protection is viewed as bigger market potential, i.e., potential for market expansion.

- Coverage may also include the number of products that the subject IP asset covers, e.g., whether a trademark covers several products or is used for a single product. For a patent, the coverage consideration would include whether the patent is a basic patent (i.e., used by other patents), a dependent patent (i.e., it is based on another basic patent; in other words, the invention covered by the subject patent is incremental), or an independent patent (i.e., it does not depend on any other existing patent which is in force).
- What is the likely ability of the business to exclude competitors from a certain market?

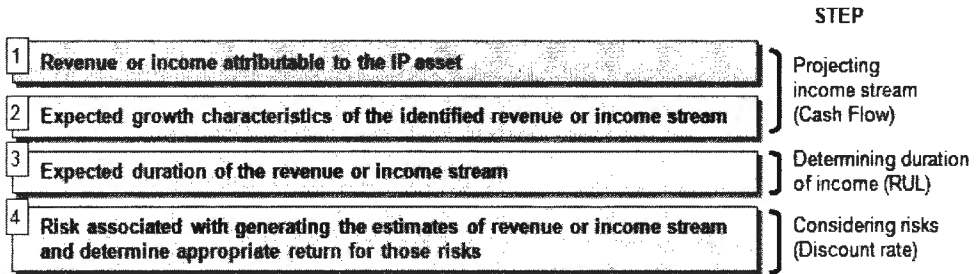
c. Other practical information

- What is the return on investment in the IP? (e.g., brand investment)
- Should co-branding or a brand extension be considered? Would this add value?
- Should the business continue developing a particular piece of technology or not?
- Does the business own core or non-core IP that it could out-license?
- Could the business get more out of its core or non-core IP?
- Are the IP assets adequately insured?

LEARNING POINT 4: How to value IP assets using DCF method: Step by step

1. Main concept

When using the DCF method, particular attention should be paid to the following parameters that impact value:



Necessary information for IP valuation

$$PV = \sum_{t=1}^n CF_t / (1 + r)^t$$

PV = present value
 CF = (expected) cash flow
 t = time representing years of IP asset economic life
 n = time that economic life is expected to end
 r = annual rate of discount (representing the risk factor or time value of money and assumed

Example

Company X is negotiating to license the use of its trademark whose current market value is estimated to be US \$ 2 million. Company X estimates that the royalty rate would lead to an annual stream of US \$ 10,000 in five years (the economic life of the trademark). The risk-adjusted discount rate has been estimated to be 8%.

Therefore, other things being equal, the net present value of the Trademark will be
 $PV = 10,000/(1+0.08)^1 + 10,000/(1+0.08)^2 + 10,000/(1+0.08)^3 + 10,000/(1+0.08)^4 + 10,000/(1+0.08)^5$
 = 9259.26 + 8573.38 + 7938.39 + 7350.23 + 6805.96 = 39,927.22

i.e. Company X would expect to receive, at present, least US \$ 39927.22 if it is to license its Trademark for five years.

2. Projecting income stream (Cash Flow)

Project Income stream (Cash Flow : CF in the formula) is a fundamental requirement in DCF and covers the first two parameters, revenue or income attributable to the IP asset and expected growth characteristics of the identified revenue(s) or income stream(s).

First is to create an income statement

Revenue - Cost of goods sold - All appropriate overhead (including Sales, general and administrative cost and R&D cost) - Proper tax payments

= 'Earnings after tax' (EAT) is obtained.

Since income statement does not directly reflect cash generated or consumed, several adjustments to create a proper cash flow statement.

Earning after tax + All depreciation expenses - The increase in working capital
 - All the other investment required = Cash flow is obtained.

3. Determining the Remaining Economic or Useful Life (RUL) of the IP asset for estimating the duration of income

The RUL will vary depending on the type of subject IP asset.

An IP asset with a long RUL will be worth more than an IP asset with a shorter RUL.

- Patents lose their useful life 20 years after the filing date-the point at which the legal protection comes to an end. No company would pay royalties in the 21st year, because it can copy the invention that was earlier protected by the patent, that is, copy without any fear of legal retaliation.
- Copyright may have a long useful life well after an author's death.
- A trade secret may have an indefinite useful life if it remains confidential and continues to be of competitive value to its owner.

Many other factors are considered in determining the RUL of an IP asset, including:

- the expected usage of the IP asset by the entity and whether the IP asset could be managed efficiently by another management team;
- typical product life cycles for the IP asset and public information on estimates of useful lives of similar IP assets that are used in a similar way;
- technical, technological, commercial or other types of obsolescence
- the stability of the industry in which the IP asset operates and changes in the market demand for the products or services output from the IP asset;
- expected actions by competitors or potential competitors;

- the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
- the period of control over the IP asset and legal or similar limits on the use of the IP asset, such as the expiry dates of related licenses; and
- whether the useful life of the asset is dependent on the useful life of other IP assets of the entity.

Learn more: Residual value

Even after the RUL is over, there may be some terminal or residual value to the IP asset because of market factors.

For example, a bankrupt company's trademark may have value even though the company is no longer in operation.

The residual value of an IP asset with a finite useful life is assumed to be zero unless:

- there is a commitment by a third party to purchase the IP asset at the end of its useful life; or
- there is an active market for the asset and:
 - : residual value can be determined by Reference to that market; and
 - : it is probable that such a market will exist at the end of the asset's useful life.

4. Considering risks (Discount rate)

The discount rate used must take into account all the risks that have an impact on the generation of the future revenue or income stream the higher the risk, the higher the discount rate.

The risks include:

- the overall market risk,
- the specific industry risk, and
- the risks associated with specific IP assets and operations being considered.

Several methods are used to calculate the discount rate.

- 'Capital Asset Pricing Model'(CAPM)
- 'Weighted Average Cost of Capital'(WACC)
- 'Arbitrage Pricing Theory'(APT) model.

QUIZ

Q1. Identify the incorrect statement:

- 1) You can add value to an IP asset even by not exploiting that IP asset
- 2) The value of an IP asset would be different depending on whether it is being valued in the context of a 'going concern', or in the context of a forced liquidation or an orderly disposition of assets
- 3) A valuation is only undertaken in the context of licensing, franchising or sale of an IP asset
- 4) Sometimes, the cost or price of an asset can be a good indicator of its value

Answer: 3)

Valuation is undertaken under a wide variety of different circumstances including licensing, franchising or sale of IP assets but are not confined to those circumstances. Other circumstances include M&A; divestures, spin-offs, joint venture or strategic alliance, donation of IP assets, calculation of damages, investment in R&D etc..

Q2. Identify the incorrect statement:

- 1) Cost method establishes the value of an IP asset by calculating how much was spent in its development
- 2) The Reproduction cost method contemplates the construction of an exact replica of the subject IP.
- 3) The Market method is the best method to use as it is based on comparing other similar transactions, similar to what you would do when buying a car or a house.
- 4) The income method values the IP asset on the basis of the amount of economic income that the IP asset is expected to generate, adjusted to its present day value

Answer : 3)

The market method is of limited use because it is difficult to find similar or comparable IP asset transaction. Even if that were possible, the information pertaining to such a transaction is not readily available, as they are usually

confidential.

Q3. Identify the incorrect statement:

- 1) Obsolescence generally does not apply to IP because IP is intangible
- 2) Projecting the income stream is a fundamental requirement in the Discounted Cash Flow (DCF) method covering income attributable to the IP asset and its expected growth
- 3) Even after the Remaining Useful Life of an IP is over, there may be some terminal or residual value to the IP asset because of market factors.
- 4) The discount rate used must take into account all the risks that have an impact on the generation of the future revenue or income stream; the higher the risk, the higher the discount rate.

Answer: 1)

While IP does not physically deteriorate it can become functionally, technologically or economically obsolete.

MODULE

12

Trademark Licensing

MODULE 12. Trademark Licensing

OUTLINE

LEARNING POINT 1: Exploiting a trademark

1. Definition of trademark licensing
2. Different ways of licensing trademarks
3. Business benefit of trademark license

LEARNING POINT 2: Preparing to license

1. Knowledge of the licensor by the licensee
2. Knowledge of the licensee by the licensor
3. Issues of interest to both parties

LEARNING POINT 3: A trademark licensing agreement

1. Preliminary clauses
2. Extent of rights (the grant clause)
3. Commercial and financial considerations
4. Responsibilities of the parties

LEARNING POINT 4: Managing a trademark licensing agreement

1. Reporting and auditing
2. Termination issues

LEARNING OBJECTIVES

1. You will understand what is trademark licensing.
2. You will learn why trademark licensing makes business sense to both the licensor and the licensee.
3. You will be able to negotiate a trademark licensing deal and prepare a simple trademark license agreement.
4. You will be able to manage a trademark licensing agreement and learn how to deal with common types of problems that may arise while managing it.

LEARNING POINT 1: Exploiting a trademark

1. What is trademark licensing?

(1) Definition

In trademark licensing, a trademark owner (Licensor) grants permission to another (Licensee) to use that trademark on mutually agreed terms and conditions.

(2) Quality control in trademark licensing

Trademark licensing was considered impossible at one time given that one of the functions of a trademark was to indicate source. The fact that a good or service is produced or delivered by a licensee (a person authorized by the owner to use the trademark) in essence means that the good or service is emanating from a source other than the owner. As such, it would amount to a false or deceptive representation to the consumer as to the true source of the products involved.

However, trademark licensing became acceptable where the licensor (the owner of the trademark) remained in control of the nature and quality of the goods or services sold in association with the trademark.

Quality control is, therefore, the essence of trademark licensing, providing the means for ensuring that the licensee's use is consistent with the licensor's interest in the trademark and at the same time ensuring that the consumer will get essentially the same quality good or service no matter where the trademarked good is purchased or the service is experienced.

2. Different ways of licensing trademarks

(1) Franchising

Franchising is a specialized license where a franchisee is allowed by the

franchisor in return for a fee to use a particular business model and is licensed a bundle of IP rights, notably, trademarks and supported by training, technical support and mentoring.

When a business model is successful and replicable at other locations, permitting interested third parties to set up independent businesses based on a proven business model, along with its attendant trademarks, know-how and other intellectual property rights (such as designs, patents and copyright), has proven to be an enormously successful and rapidly growing trend.

The key to franchising is the licensing of intellectual property rights, particularly trademarks.

(2) Merchandising

The licensing of trademarks, designs, artworks as well as fictional characters (protected by these rights) and real personalities are broadly referred to as merchandising.

Allowing manufacturers of ordinary consumer goods such as plates, mugs, towels, caps, clothes, to name a few, to apply on their products the trademark of another immediately adds appeal to an otherwise commonplace object and a means of distinguishing themselves in the market place.

Example: Trademarks of popular companies, sports teams, universities have huge consumer recognition and appeal, allowing for brisk sales at a premium price.

(3) Brand Extension

Through a trademark licensing agreement, a company may team up with

another who may be provided with the right to apply the trademark on a new product.

Example: Monaco Coach, a manufacturer of luxury recreational vehicles entered into a licensing agreement with Dodge, a manufacturer of trucks, to use the Dodge trademark and logo on their trailers. By this agreement Dodge successfully extended their product (trucks) into (trailers).

(4) Co-branding

Two or more reputed trademarks, not necessarily with the same level of reputation may join together in one product creating a new appeal to the same clientele or break into a new market.

Example: Lexus, the luxury motor car of Toyota and Coach reputed for its high quality leather accessories joined together to produce Lexus Coach Edition which is the luxury motor car Lexus with the interior finishing in coach leather products.

(5) Component or ingredient branding

A product may license the right to use the trademark of an ingredient. Using the trademark of that ingredient in the packaging, advertising or on the host product itself influences consumers towards that product.

The reputation of the trademark of the ingredient lends value and appeal to the host product.

Example:

- PC computers with Intel Inside
- Diet soft drinks with NutraSweet
- Stereos with Dolby noise reduction
- Teflon in cookware

(6) Standards

Products that comply with a certain technical or other standard which adds value to its product and, therefore, customer appeal can license the right to use the trademark of the certifying entity.

There may be government standards setting bodies, quality control institutions and testing organizations which may, when a particular product satisfies the standard, quality or other requirement, certify that that product meets that standard, quality or requirement in question.

Such information is conveyed to the customer through the use of a particular logo or mark belonging to that approving institution and licensed for such use.

3. Business benefit of a trademark license

(1) Additional revenue stream

An owner of the trademark can license the use of the mark to as many users or licensees as he/she wishes and it will create an additional revenue stream by each such user.

(2) Territorial expansion

Allowing a company in a different country or region to manufacture goods or provide services to which the right to apply a company's trademark is granted through a trademark license agreement allows a company to expand into that territory.

(3) Benefit from another's manufacturing, distributing, sales or marketing capacity

Through trademark licensing a company may team up with another partner

to benefit from that others manufacturing, distributing, sales or marketing capacity, that is, without having to invest in developing such capacity within its own establishment

(4) New channels of distribution or segmenting the market

Through licensing of marks a company may enter a new channel of distribution that it had hitherto not used or enter new markets in the same geographical area (for example, the youth market, the urban, the elderly or wherever else) so that the mark could have a new or different appeal.

(5) Discontinued marks

Due to mergers and acquisitions, bankruptcy, decision to converge on a few or even one mark perfectly valuable marks may be abandoned by their owners. An owner of such a mark could continue to retain ownership of the mark but license it to another so that while it is no longer doing business under that mark, it has not abandoned it to the public domain and could still earn revenue from it.

(6) Strategic partnerships

Licensing activity is now moving beyond the traditional style of lending a logo to truly partnering so as to give life and vitality to the core business of a company. When a charcoal manufacturer and a grill manufacturer teamed up to produce the perfect grill for charcoal grilling using the mark of the charcoal manufacturer it was not simply licensing the use of a mark but jointly developing a product which was "win win" for both of the companies.

(7) Converting an infringer into an ally

Where the mark of a company is being infringed by another, running the risk of diluting the brand image and compromising the reputation of the company it may be an option to convince the infringer to obtain a license

for the use of the mark.

(8) Increased consumer recognition and advertising

For many companies licensing of their marks is less about revenue and more about increasing customer recognition. The more the mark is used the greater the recognition of the brand. In addition, partnering through licensing creates efficiencies. Common costs may be shared, particularly advertising and promotion costs.

LEARNING POINT 2: Preparing to license

1. Due Diligence

(1) Knowledge of the licensee by the licensor

a. *Organizational structure*

The legal structure of the licensee will affect the content of the licence and will determine the need for warranties or guarantors as to the performance of the individual or individuals involved.

b. *What the licensee wants*

In many instances, it is important to determine what the licensee wishes to do and determine if that will work within the licensing program of the licensor.

c. *Financial background*

Basic information such as the name of the bank or banks through which the licensee deals could be important in determining the ability of the licensee to provide and comply with the financial terms of the agreement.

d. *Business and licensing information and experience*

- What experience does the licensee have in the relevant area?

- If the licensee was a former licensee to a third party, how did the relationship end and why?
- If the licensee is still operating under other license arrangements, is there a conflict or possible conflict or are the products or services complimentary?
- Can the proposed licensee manage two or more licenses and the financial and performance criteria of both?
- If complimentary, how is the proposed licensee performing under the license or licenses?

In this regard, in terms of whether the proposed licensee has successfully licensed the products and/or services in other countries such information would be useful to the licensor.

e. *Products and services of interest to the licensee*

The licensor would be well advised to determine what product areas and/or service areas are of interest to the proposed licensee in terms of the use of the trademark(s).

Based on the information obtained by the licensor concerning the proposed licensee, the licensor is better able to determine whether, in fact, the proposed licensee is capable, financially and business-wise, to bring the new products and/or services to market successfully.

(2) Knowledge of the licensor by the licensee

a. *Licensor's Trademark Rights*

First and foremost, the licensee needs to know whether the licensor is indeed the owner of the mark and/or has the right to license that mark.

b. *Other Licenses*

It would be useful for the licensee to know about other licenses in existence. Other licensee or former license experiences, past and present, with the licensor will be invaluable in the negotiation process.

c. *Specify Licensor Trademark Licensing Policy*

Does the licensor have a trademark licensing policy?

- Does it have a manual in this regard?
- Are there criteria set up for dealing with infringers of the trademark rights being granted?
- Are there criteria for dealing with breaches or perceived breaches of the trademark license by the licensee and are they fair?
- Is there any room for licensee creativity in terms of products, services, advertising and promotion. If so, what is the process and who ultimately owns that creative work.

(3) Issues of interest to both parties

a. Business Plan of the Licensee

The licensee as well as the licensor must have a business plan relating to the prospective license agreement, including the timing of the different steps for bringing the goods and/or services to market in a particular region as well as, *inter alia*, the promotional methods to be used to obtain and maintain market share, financial requirements and methods of finance.

b. Promotional and Marketing Information

Often the marketing plan for the licensee, the proposed manner in which a product or service is going to be marketed, advertised and/or promoted is of great importance to the licensor.

c. Sales Territories

Ultimately, an appropriate marketing territory will be mutually agreed upon by the parties. To determine the appropriate size of the territory, the assets and experience of the proposed licensee must be assessed in terms of his distribution facilities, manufacturing facilities and future expansion plans as well as the proposed licensee's business acumen.

d. General Information

Sources such as annual reports of the respective parties, government filings, credit ratings, existing sales catalogues for product lines or services, newspapers, magazines or trade journals, commentary on the

respective parties and so forth can provide a wealth of information, as can the internet.

More Reference 2-1: Sample checklist for due diligence

Organization Structure

- Sole proprietorship
- Partnership
- Incorporated Company
- Date of Incorporation or date business commenced

Type of Business

- Manufacturer
- Wholesaler
- Services
- Other (specify)

Banking

- Name of Bank(s)
- Address(s)
- Access to Banking Statements

Description of Products or Services

- Product
- Actual Sales

Projected Licensing Program Details

- License Rights Requested and Defined by Prospective Licensee
- Forecast Sales of Licensed Items
- Accounts to whom you plan to sell the licensed products

Marketing Information

- Does Licensee plan to conduct any advertising or promotion to support the Product?
- If yes, what type?
- Consumer Advertising, Trade Advertising
- Sales, Trade Incentives
- Other (specify)
- What Advertising Agency does prospective Licensee use?
- Name
- Address
- Key Contact
- Telephone
- What amount of advertising, promotion and merchandising monies does

- Licensee plan to spend in support of this new licensed product.
- Does Licensee have product design and art work capability?
 - Does Licensee have a formal Quality Control Program?

Projected Sales Volumes

Projected Royalties

- Projected Total Sales
- Projected Royalty
- Advance Royalty Payment

Sales Territory Requested

- Describe specifically Territorial rights requested by Licensee.
- Newspaper, magazine articles about Licensee, if any.

Distribution Facilities

- Describe Licensee's existing channels and methods of distribution within Territory requested.
- Current distribution

Distribution Facility Expansion

- If license was successful, would expansion of Licensee's distribution facility be necessary? Expenditure forecast?

Manufacturing Facilities

- Describe existing manufacturing facilities and their location.

Manufacturing Facility Expansion

- If license application was successful, would manufacturing facility expansion be necessary for proper performance?
- If yes, give expenditure forecast.

Licensing Information and Experience

- Does proposed Licensee currently manufacture any other products under licensing contracts?
- Specify which licenses does prospective Licensee currently hold.
- Indicate previous licensing activity, give extent of such participation in sales dollars
- Experience gained.

Timing Information

- Product approval submission date.
- Date Product to be presented to buyers.
- Retail sales launch date.

General Information

The following information is also helpful:

- Annual Reports
- Sales Catalogue
- Letters of commendation from retailers for product quality and service

2. Trademark Valuation

Before entering into a trademark licensing negotiation in earnest, both the licensor and licensee should have a good indication of the value the trademark to be licensed. The trademark valuation is used for arriving at the royalty rate.

Several different methods are used to value trademarks, and they each have their advantages and weaknesses. Often, these are to be used to guide rather than to be taken as strict rules.

Basically, three different methods are used for valuing a trademark: (i) the cost method, (ii) the income method, and (iii) the marketing method. Please refer to module 11 'Intellectual Property Valuation' to study the detail contents regarding these valuation methods.

LEARNING POINT 3: A trademark licensing agreement

1. Preliminary clauses

(1) Title of agreement

In most licensing situations, there is more than one agreement involved. In the case of a trademark license it would be called a Trademark License Agreement, and if it included patent rights or know-how it could be called a Trademark, Patent and Know-How License Agreement, and so forth. It is useful to have a title which does describe the subject matter of the

agreement.

(2) Effective date

After the title of the agreement there is, in most cases, an effective date clause which essentially states when the agreement and the terms and conditions become effective as between the parties.

(3) Description of the parties

This section will contain the exact legal name of the party, the legal nature of the entity involved whether it be a partnership, sole proprietorship, corporation, and so forth, as well as an indication of where the parties involved have been incorporated or created together with their location and address.

(4) Preamble

This portion of the license normally sets the stage or describes the history between the parties which leads up to the actual execution of the agreement.

(5) Definitions Section

The definitions section will set out what the parties intend certain words or phrases within the agreement to mean as at the date of the creation of the license which is the relevant time for interpreting the true meaning or intent of the parties while entering into the license agreement.

2. Grant clause (Extent of rights)

Exclusive license: An exclusive trademark license provides the licensee with the right to use trademark to the exclusion of all, including the licensor.

Thus, the trademark owner cannot use the trademark himself nor can he license any rights to others. The licensee remains the only user of that mark in the relevant market.

It may be seen as or deemed to be an assignment particularly where this is no termination date.

Non-exclusive license: A non-exclusive license grants to the licensee the right

to use a trademark according to the grant, the licensor may continue to use the trademark himself as well as grant other licenses.

Any of the above licenses can also include other limitations or limited rights provisions.

The most common of those limited license provisions is that the territory of the licensee is limited either as to the products or services that can be provided in association with the trademark, the geographical territory within which the licensee can sell, the location or site from which the licensee can sell (site location) or the market sector to which they can sell and promote the licensed product or service.

(1) Sub-License

The licensee may be granted the right to sub-license some or all of the rights included within the license and the licensor may wish to be a party to any sub-license that the licensee enters into.

(2) Territory

A trademark could be licensed for use by a licensee in the whole world, in certain specified countries, groups of countries or territories within countries. Licenses could also be granted for use in specific industries or for specific market sectors, i.e., wholesale as opposed to retail, commercial as opposed to residential, and so forth.

(3) Term or Duration

In many license agreements, the term of the license is stated in terms of three, five or ten year increments.

(4) Reservation of Rights

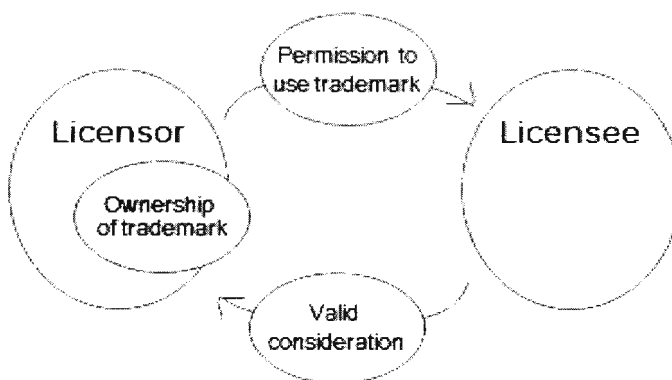
The grant clause often includes not only the grant of the rights to the

licensee but also an indication or reservation of rights to the licensor for future licensing opportunities or for the entry of the licensor itself into the marketplace.

In addition, most sole, exclusive and even non-exclusive license set minimum sales objectives on a periodic basis.

3. Commercial and financial considerations

(1) Payment and royalties



a. *Lump sum payments*

These can take the form of fully paid up license agreements, where a lump sum is agreed to and paid at the time of the license right is being granted.

Lump sum payment may also be spread, periodically, over the term of the license.

b. *Royalties*

The most usual type of consideration is to provide for some sort of upfront fee as well as an ongoing royalty payment based on sales. In some cases an upfront fee is paid as against royalties.

Once royalties to be paid exceed the upfront fee, then the royalty payments are paid on a monthly, quarterly or some other periodic payment basis.

The amount of the royalty, in terms of percentage, may vary from product to product, service to service and industry to industry.

The royalty is usually calculated on a defined "base" rate. In some cases, this might be net profit, net sales, gross profit or gross sales.

Learn more: Royalty rate & Royalty base

Royalty rate : The appropriate royalty rate depends on numerous factors including the relative bargaining strength of the licensor and the licensee, profit potential, the size of the territory, how well the trademark is known, the competitive situation in the marketplace relating to the products or services involved.

Royalty base : The base amount upon which the royalty rate is calculated whether it be called gross sales, gross profits, net sales or net profits or some other expression. It is calculated in accordance with the definition included in the definition section or in the royalty section itself.

The provisions of the royalty section would also deal with

- (1) when royalties are to be paid;
- (2) the penalty for not paying royalties on time;
- (3) the issue of withholding taxes in foreign jurisdiction where there are restrictions on the payment out of monies from the country;
- (4) and interest on outstanding payments as well as the method of payment.

In many license agreements, the royalties are paid into a trust account at a financial institution which is only accessible to the licensor. It could be as simple as a monthly cheque or bank wire transfer to the licensor.

More Reference 3-1: General or boilerplate clauses

No Joint Venture

This clause normally states quite simply that the parties are contracting parties to an agreement and that the agreement is not to be interpreted as a joint venture agreement, partnership or any other kind of special relationship other than a contractual relationship.

Service of Legal or Non-traditional Dispute Resolution Proceedings

This clause allows the parties to act outside of the rules of any given court or alternative dispute resolution rules to allow for simplified service of documentation, in accordance with the notice provision of the agreement, which would be less expensive and more expeditious.

Notice Provisions

This clause governs notices concerning breaches of the agreement as between the parties, delivery of samples or specimens for quality control purposes, audits of royalties, accounting records, and so forth, which require notices to be sent to one party or the other. The notice provision indicates how those notices are to be sent in order to effect proper notice, as required under the agreement. Usually, the notice provision provides for service of documents either by registered mail, e-mail and/or fax, together with an indication of how that service will be deemed effective, so that a calculation of the relevant notice period contained in any of the provisions of the agreement can be made.

Variation, Alteration, Amendment and Waiver

This provision with respect to variation or alteration relates to the ability to unilaterally amend the agreement after it is executed. In many cases, trademark license agreements allow, from time to time, for the unilateral amendment or changes of different aspects of the agreement such as schedules, instructional manuals as well as quality control specifications from time to time. In some cases, it even allows for the licensor to change the trademark licensed under the agreement. This unilateral right to amend is usually within the control of the licensor only. That being said, there is also usually a standard or general clause in the agreement which prohibits the amendment, variation or alteration of the agreement after execution without the mutual agreement of the parties to the agreement

Waiver

Where either party fails to comply with a certain provision or obligation under the agreement or is in breach of some kind, the failure of the other party to object to it is therefore a waiver of that breach or failure. However, this does not prejudice that party's right to object to the same breach or failure to

comply at a later date.

Severance

This provision provides for the deletion from the agreement of clauses or subsections or even certain wording within the agreement that may subsequently, by virtue of statutory change, regulatory change or judge made law, be seen as offensive to the law or unenforceable. The provision allows the parties to sever the objectionable portion from the agreement, while saving the rest of the agreement, or even the section or provision in which the objectionable material appears.

Inurement Clause

This clause usually allows for the successor of the respective parties to the agreement to take over the original contract and enjoy the rights and be bound by the obligations set out in that contract. In some cases, there are personal obligations within the agreement that cannot obviously be carried forward as the original party ceases to be.

Entire Agreement Clause

This clause provides that only those terms and conditions stated in the agreement at hand are binding on the parties.

Language

In some countries, or regions of countries, an agreement may not be enforceable unless there is version of it in the local language of that country or region. Moreover, some jurisdictions will require that only the version of the license in a certain langue is the official version.

Attached Schedules

This clause normally provides that the schedules referred to in the license agreement, and attached to it, form part of the agreement as a whole. The importance of this is that the parties should be conscious of the fact that terms and conditions that bind them may appear in both the agreement itself and in the schedules to it.

Time of the Essence

In some jurisdictions, statutory law and/or case law have created an implied term that all agreements are subject to time being of the essence. In other words, the performance of the the agreement by the parties shall be done in a timely fashion.

Headings and Preamble

As with the prior provision relating to schedules and attachments, this provision normally recites the fact that the preamble, headings and/or the

recitals will or will not form part of the agreement for the purposes of interpretation and effect.

Trade-name

The parties to an agreement often permit the licensee and/or sub-licensee to use one or more of the trademarks which are licensed under the trademark license agreement in their trade-name or corporate name. Unfortunately, in order to change those trade or corporate names, subsequent to termination of the licensee usually requires some positive act, either by way of resolution of the company or the signing of documentation to be filed with a government agency requesting that a change be made. Often, when a licensee is terminated, or not renewed, the licensee is not willing to cooperate by executing such documents or passing such resolutions. To deal with these types of situations, it is normally prudent to include a clause whereby an officer or named individual within the licensor is entitled to act as a power of attorney on behalf of the licensee to execute or effect the creation of such documentation, as is necessary, to change the name of the licensee or to delete the relevant trademarks.

Return of Materials

Trademark licenses often provide for the immediate return, upon termination, of manuals or other confidential or sensitive information provided by the licensor.

Enforcement of Termination

Most license agreements provide that in the event that the licensee continues to sell the product or provide services in association with the trademarks after termination, the licensor shall be entitled to immediate legal relief. Normally, the provision provides that the licensor is entitled to an immediate injunction against the former licensee without the need to prove irreparable harm or any other prerequisite to an injunction.

Change of Control

This provision allows for the termination of the agreement in the event of any change of control or other change of ownership of the licensee. In other words, the licensor is able to dictate to the licensee who will own and control the licensee during the life of the agreement.

Additional Documents

Although, the license agreement will have attached to it as schedules the form of documents that will be necessary to be executed at the time of the execution of the trademark license agreement, or other necessary documents will be provided at the closing of the deal, this is not always the case. Therefore, there is usually a clause within the agreement that requires the

parties to the agreement to execute any additional documents, or for that matter, perform any additional acts, which are contemplated or required in order to effect the terms and conditions of the license agreement.

Force Majeure Clause

This clause provides that the parties will be relieved of their obligations to perform under the agreement if it is impossible to do so because of unforeseen and uncontrollable circumstances, such as fires, wars, floods, labour disruption, government intervention, terrorist acts, and so forth.

Disclosure of a License Agreement

In most cases, neither party wishes the terms and conditions of the agreement to become public information. In this regard, the licensor and/or the licensee may require that press releases or any other public information relating to the agreement or the relationship between the licensor and the licensee be approved by both parties prior to their release.

Recordal

Many countries require a license agreement to be submitted to a public authority for approval or simply for recordal in order to validly or properly use a trademark within a territory. Failure to comply with recordal requirements may result in the trademark or trademarks becoming invalid or unenforceable as well the licensor and the licensee liable to penalties.

Restrictions as to Import and Export of Certain Goods

Depending on the subject matter of materials licensed under the agreement, and even where services are involved, there may be restrictions in terms of the transfer of information, technology, materials, products and so forth as between certain countries or territories of the world.

Compliance with Laws and Regulations

Normally, all agreements provide that there is an obligation on, at least, the licensee to comply with all local, national and municipal laws and regulations when carrying out its obligations under the agreement.

Shareholder Liability

In the event that the agreement is terminated, for cause or otherwise, there is no personal liability on behalf of the shareholders and that the parties to the agreement will not seek any redress from them.

Legal Rights of Redress are Cumulative

In the event that either party to an agreement takes advantage of certain procedural rights in order to enforce any particular provisions of the agreement, or compliance with provisions of the agreement, that does not preclude them from seeking further legal, equitable or any other relief that

may be available to them subsequently.

Telephone, Fax Number, Domain Name and Signage

Trademark license agreements usually provide for the acquisition by the licensor of any telephone numbers, fax numbers, domain names, signage, e-mail addresses and so forth that have been used by the licensee particularly, where they include any of the licensed trademarks within them.

Agreements May be Executed In Counter-parts

It is often the case that agreements are executed in counter-parts. Each party to the agreement may sign separate copies of the agreement and, provided all parties have signed a copy of the agreement, the agreement is binding on the parties.

The Execution Section

Although in many countries the execution of an agreement is a fairly simple procedure, which only requires the parties to the agreement to sign and date the agreement, in some jurisdictions a more formal procedure must be followed including notarization, legalization and other formalities.

LEARNING POINT 4: Managing a trademark licensing agreement

1. Responsibilities of the parties

(1) Quality Control

Licensing without quality control is often called "licensing in gross" or "naked licensing."

In the absence of real and effective control by the licensor, the trademark will no longer symbolize a particular source and, as a result, the licensor may no longer have a protectable interest or exclusive rights in the licensed trademark.

Quality control requires both a setting of standards of quality and the policing of those standards by the owner of the trademark or its representatives to ensure that standards are being complied with.

In some cases the licensor might delegate the quality control, maintenance or monitoring to a third party monitoring agency.

(2) Infringement

There are two situations in which infringement can occur.

a. Where the licensee and/or licensor are sued by a third party

In this situations, the licensor and/or licensee should defend against and/or settle any third party claims relating to the licensed trademark.

This provision may provide for some abatement of royalties or other amendments to the relationship if any settlement or other resolution results in a restriction of the rights granted to the licensee, or, in some cases, a change of the trademark or trademarks that are in fact licensed.

b. Where a third party is infringing the licensor's trademark

In the more usual situation, the agreement provides that the licensor is entitled to bring legal action against the infringer should it so choose.

If the licensor does not take legal action or chooses not to take legal action, the licensee after a certain period of time, may take legal action against the infringer in its own right.

(3) Non -competition Clauses

Non-competition clauses usually deal with two major issues.

a. The operation of a competitive business *During the term of agreement*

During the term of the agreement, operating any business that may compete with the licensed business may be prohibited.

b. *The operation of a competitive business After the termination of the agreement*

A non compete clause may restrict the licensee from operating a competitive business to that of the licensor or its licensees after the termination of the agreement.

In many jurisdictions, the post termination restriction on a former licensee is viewed as non-competitive and in restraint of trade and will not be enforced and may result in the imposition of severe penalties on the licensor.

In other jurisdictions the reasonableness of the restrictions is the deciding factor as to their enforceability.

(4) Improvement

The improvement clause normally deals with new ideas arising from both the licensor and the licensee during the implementation of the license agreement.

In some cases, the licensor may be permitted to claim ownership of all intellectual property and other creative concepts developed during the term of the license, no matter which party creates it. Typically, however, there is a sharing of the improvements between the parties at least during the term of license.

(5) Reporting and auditing

This section will usually deal with the keeping of records and accounts by the licensee so that the licensor can audit or check on the accuracy of the calculations, which form the basis of the royalty payment.

More Reference 4-1: The other issues regarding responsibilities of the parties

Representations and Warranties

By the licensor - The licensee will normally want the licensor to warrant and represent that he is in a position to enter into the agreement and is not aware of any agreement which would prevent the valid execution of the agreement between the parties. In addition, and more particularly, the licensee would be looking for warranties by the licensor as to ownership of

the trademarks and other intellectual property which are the subject matter of the license agreement. The representation and warranty provisions often deal with the issue of as to which party will have the responsibility to maintain the intellectual property rights during the term of the license in terms of renewal and maintenance

By the Licensee - From the point of view of the licensee, the representations and warranties relate mostly to its ability to enter into the agreement and the corporate status of the licensee.

Trademark Marking

In most countries, trademark marking is not mandatory. In other words, it is not necessary for the owner of a trademark to indicate that a word or design is being used as a trademark or that a trademark is registered or not, nor is it mandatory to indicate whether a mark is used under license or who the owner is. However, in certain jurisdictions, marking, or at least an indication that the mark is registered, is mandatory in order to maintain the viability of the trademark. Nevertheless, trademark marking is always strongly recommended whether it be by the owner or its licensee.

Maintenance of Trademark Rights

Although, typically in trademark license agreements the renewal and maintenance of trademarks is dealt with by the licensor, and is the responsibility of the licensor, there are occasions where the licensee is required or obligated to maintain trademark rights in certain territories. In many cases, this arises where there is an advantage to having a local business entity in another country for renewing or dealing with trademark rights.

Confidential Information

Most license agreements include confidential information clauses. During the course of the agreement, the licensee is entitled to use that confidential information but is not entitled to disclose it to any third parties and, in some cases, even to employees that do not need to know. After the termination of the license agreement the protection of confidential information becomes all the more important. The confidentiality clause will often also require that the licensee obtain confidentiality agreements from employees and agents that are employed or retained by the licensee and have access to the confidential information of the licensor. In many cases the licensor will wish to be a party to such an agreement so that it can enforce the terms in the event the licensee fails to do so.

Assignment Rights By Licensor And Licensee

The licensor is free to assign the rights and obligations under the agreement to any third party or affiliated or related companies that it wishes. It is,

however, possible in certain situations, where the licensee has a very strong bargaining position, that assignment or transfer of the rights and obligations under the agreement will not be permitted without the prior written consent of the licensee. However, the licensee is not permitted to assign its rights or obligations under the agreement without the prior written consent of the licensor.

Illness or Improper Management by The Licensee

Since the selection of the appropriate licensee by a licensor in relation to the use of its trademark is a very personal endeavor, many licensors do not wish to allow a licensee the right to assign its rights and obligations under the agreement even in the case of illness, improper management or death of the licensee or principal of the licensee. The licensor may have the right to install a management team into the licensee's operation so as to allow the licensee to recover from illness or to improve or instruct the management in the proper operation of the license operation. In the event of death, the agreement will sometimes provide for either a family member to take over the operation in certain circumstances or allow the licensor to seek out or approve, in advance, an appropriate licensee to take over the license agreement.

Non-Solicitation Clause

During the course of the license agreement, the non-solicitation clause is usually concerned with licensees trying to lure employees from either the licensor or other licensees. After termination of the agreement, the non-solicitation clause usually continues the restriction on the poaching of employees from the licensor or other licensees or contract employees and also places restrictions on the former licensee in terms of customer lists and approaching former customers of the licensee or the licensor which existed during the course of the agreement.

Covenantor and Guarantor Provisions

In situations where the licensor is concerned about the financial ability of the licensee, it will ask for a guarantor or covenantor who will agree to be bound by the terms and conditions of the agreement and be individually responsible for the financial and the operational requirements of the license agreement.

Insurance Clauses

Insurance clauses are included in trademark license agreements to protect the licensor in the event that the goods and/or services provided by the licensee are defective or that the licensee will incur some kind of liability for which the licensor may be found to be wholly or partially responsible. The insurance provisions of the agreement provide that the licensee will obtain insurance of a certain kind to protect both the licensee and the licensor against third party

claims under product liability or other insurance situations. In addition, in some cases, the licensor requires the licensee to obtain business interruption insurance so that in the event that the licensee's business is interrupted, for whatever reason, the licensor will still be entitled to a steady stream of income during the interrupted period.

Indemnity Clauses

Indemnity clauses are designed to provide an indemnification from the licensee or its guarantor in the event that the licensor is somehow held liable for product liability claims, or some other insurance claim brought against both the licensee and the licensor or just the licensor, which results from the license agreement.

Licensee Manufacturer Agreement

In most license agreements, there are provisions made for the control by the licensor, either directly or indirectly, of manufacturing arrangements made by the licensee. In many cases, the licensee is not in a position to manufacture some, or all, of the products which are licensed to it under the trademark license agreement. In those situations, the licensee seeks out manufacturing facilities of third parties to manufacture and produce the licensed product in accordance with the quality control standards of the licensor. If the licensee intends to proceed in this fashion, a clause allowing him to sublicense out the manufacturing of some or all of the licensed product, or for that matter licensed services, is normally set out in the agreement.

Best Efforts Clause

Licensors are best served by licensees who will work diligently to produce and maximize the sale of the product bearing the trademark or to provide services in association with trademarks so that they will maximize royalties paid. This often requires a best efforts clause. This kind of clause is included within the agreement to impose an obligation of diligence on the licensee so that the licensor can maximize the return on the license.

2. Termination issues

(1) Termination by licensor

Termination clause deals with the termination of the license either on the basis of the expiry of the original term, exhaustion of all renewal periods or, in some cases, where the licensor terminates the license either with or without cause.

Typically, termination clauses include a list of events called breaches or defaults, which may trigger termination by the licensee or the licensor.

Example:

- Failure to pay royalties
- Quality control problems
- Bankruptcy

(2) Termination by licensee

In certain circumstances, particularly in franchise situations, the licensor might have an obligation to advertise the product, conduct promotions, provide training, etc.

The licensor may be in breach if he does not perform these obligations in an appropriate or timely manner.

In these situations, the licensee would normally have the right to terminate.

Learn more: Continuing obligations of the licensee after termination

In most licenses, the licensee is required to agree to certain obligations that will continue after the license is, for whatever reason, terminated. In this regard the obligations may simply be stated by a clause, which indicates the specified clauses of the existing license agreement that will survive termination.

These usually relate to the maintenance of confidential information, the obligation to continue to pay royalties that were due and payable before the termination of the agreement, which have not been paid, or for the continued use of the mark in the phase out period after termination.

Indemnities relating to the performance of the licensee would continue, that is the licensor could sue on that indemnity if there was a breach resulting in termination or if a breach was discovered after the license expired.

Continuing obligations often also deal with the phase out of the licensed business or the liquidation of the business and its assets.

More Reference 4-2: Sample TRADEMARK LICENSE AGREEMENT

This Trademark License Agreement (the "Agreement") is entered into as of DATE by and between the following two parties.

The Licensor: [Person, position, company name and address, e-mail, fax number]

The Licensee: [Person, position, company name and address, e-mail, fax number]

WHEREAS, Licensor owns the registered trademark (the "TRADEMARKS") shown in Attachment 1 to this Agreement;

WHEREAS, Licensor wishes to license to Licensee and Licensee is desirous of acquiring a license to use the Marks on the conditions and restrictions contained in this Agreement;

NOW THEREFORE, the parties agree as follows:

1. Grant of License

1.1 The Trademarks

Upon the terms and conditions hereinafter set forth, the Licensor hereby grants a general license to the Licensee the registered trademarks as defined in Appendix 1, and the Licensee hereby accepts the general license to use the trademarks as defined in Appendix 1, including all the trademarks, any part of the trademarks, and any design, character, symbol, and visual representation of the trademarks (collectively the "Trademarks"). The license hereunder is non-exclusive.

1.2 Scope

1.2.1 The right to use the Trademark granted by this Agreement shall only be used in the business operated by Licensee. Licensee agrees not to directly or indirectly use or authorize any other party to use the aforementioned Trademark in any other manner, unless there are contrary provisions in this Agreement.

1.2.2 The License granted by this Agreement to Licensee shall be valid in "TERRITORY" only. Licensee agrees not to directly or indirectly use or authorize any other party to use the aforementioned Trademark in any other region.

2. Terms of Payment

The Licensee agrees to pay to the Licensor a license fee and the details of license fee and the form of payment are set forth in Appendix 2.

3. Goodwill

The Licensee recognizes the value of the goodwill associated with the Trademarks, and acknowledges that the Trademarks and all intellectual property rights therein and goodwill pertaining thereto shall be the sole and exclusive property of the Licensor, and that the Trademarks have an underlying association with the Licensor by public perception.

4. Confidentiality

4.1 The Licensee shall protect and maintain the confidentiality of any and all confidential data and information acknowledged or received by the Licensee by accepting licensing of the Trademarks from the Licensor (collectively the "Confidential Information"). Upon termination or expiration of this Agreement, the Licensee shall, at the Licensor's option, return all and any documents, information or software including any of such Confidential Information to the Licensor or destroy it and delete the Confidential Information from any electronic devices and cease to use them. The Licensee shall not disclose, grant or transfer any Confidential Information to any third party without the Licensor's prior written consent.

4.2 It is agreed that Section 4.1 shall survive any amendment expiration or termination of this Agreement.

5. Representations and Warranties

5.1 Licensor represents and warrants as follows:

5.1.1 Licensor is a enterprise legally registered and validly existing in accordance with Territory laws.

5.1.2 Licensor shall execute and perform this Agreement within the scope of its corporate authority and business; has taken necessary corporate actions to give appropriate authorization and to obtain the approval and permission from third parties and government authorities, and shall not violate restrictions by laws and contracts binding or having an effect thereon.

5.1.3 This Agreement shall constitute Licensor's legitimate, valid and binding obligations as soon as it is legally executed, and shall be enforceable against it.

5.1.4 Licensor has exclusive ownership of the Registered Trademark under this Agreement.

5.2 Licensee represents and warrants as follows:

5.2.1 Licensee is a company legally registered and validly existing in accordance with Territory laws.

6. The Licensor's Right of Licensing and Protection of the Licensor's Rights

6.1 The Licensee agrees that it will not during the term of this Agreement, or thereafter, challenge the right of licensing or any rights of the

Licensors in and to the Trademarks or challenge the validity of this license or otherwise take or fail to take any action that impairs such rights or license.

6.2 The Licensee agrees to assist the Licensor to the extent necessary in the procurement of any protection or to protect any of the Licensor's rights to the Trademarks. In the event any third party lodges a claim concerning the Trademarks, the Licensor, if it so desires may commence or prosecute any claims or lawsuits in its own name or in the name of the Licensee or join the Licensee as a party thereto. In the event any third party infringes on the above mentioned Trademarks, the Licensee shall notify the Licensor in writing of any infringements or imitations by others of the Trademarks which may come to the Licensee's attention, and the Licensor shall have the sole right to determine whether or not any action shall be taken on account of any such infringements.

6.3 The Licensee further agrees to use the Trademarks only in accordance with this Agreement and shall not use such Trademarks in any way, which, in the opinion of the Licensor, is deceptive, misleading or in any way detrimental to such Trademarks or the reputation of the Licensor.

7. Quality

7.1 Licensor authorizes Licensee to use the Marks in association with the Wares and/or Services so long as the use by Licensee is in accordance with the instructions, standards of quality and trade-mark specifications set by and approved by Licensor from time to time.

7.2 Licensee undertakes to use the Marks in strict accordance with the instructions, standards of quality and trade-mark specifications supplied by Licensor from time to time, and to use each of the Marks only in association with [the Wares and/or the Services] now set out in Schedule "A" which may be amended to add or delete Marks as Licensor in sole discretion shall decide.

7.3 For as long as Licensee uses the Marks, Licensor shall have the right to inspect the premises of Licensee from time to time during normal business hours, upon reasonable notice and to take samples, at Licensee's expense, of any Wares sold or to be sold in association with the Marks by Licensee. For as long as Licensee uses the Marks, Licensor shall have the right to inspect the premises of Licensee from time to time during normal business hours, upon reasonable notice, and to observe the performance of the Services.

8. Promotion

In all cases where the Licensee produces promotional material involving the Trademarks, the production cost of such material thereof shall be borne by the Licensee. All copyrights or other intellectual property rights of such material concerning the Trademarks thereto shall be the sole and exclusive property of the Licensor whether developed by the Licensor or the Licensee. The Licensee agrees not to advertise or publicize any of the Trademarks on radio, television, papers, magazines, the Internet or otherwise without the prior written consent of the Licensor.

9. Effective Date and Term

9.1 This Agreement has been duly executed by their authorized representatives as of the date first set forth above and shall be effective simultaneously. The term of this Agreement is ten (10) years unless earlier terminated as set forth below. However, the Licensor and the Licensee shall review this Agreement every 3 months to determine whether any amendment to the Agreement is necessary depending on the circumstances.

9.2 This Agreement may be extended for one year only if the Licensor gives the Licensee its written consent of the extension of this Agreement prior to the expiration of this Agreement. However, the Licensee has no right to confirm such extension.

10. Record Filing

Within three (3) months after the execution of the Agreement, the Licensor shall make a record filing of the copy of the Agreement to the relevant trademark management authority of The Territory.

11. Termination

11.1 Termination on Expiration.

This Agreement shall expire on the earlier date of the date due and the date when the Licensor's right of licensing is terminated, unless this Agreement is extended as set forth above.

11.2 Early Termination

Without prejudice to any legal or other rights or remedies of the party who asks for termination of this Agreement, any party has the right to terminate this Agreement immediately with written notice to the other party in the event the other party materially breaches this Agreement including but not limited to Section 6.1, 6.2 and 6.3 of this Agreement and fails to cure its breach within 30 days from the date it receives written notice of its breach from the non-breaching party. During the term of this Agreement, the Licensor may terminate this Agreement at any time with a written notice to the Licensee 30 days before such termination.

11.3 Survival.

Article 3, 4, 6 and 16 shall survive after the termination or expiration of this Agreement.

12. Force Majeure

12.1 Force Majeure, which includes but is not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning and war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event of Force Majeure. The party affected by Force Majeure shall notify the other party without delay.

12.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate measures to minimize or remove the effects of Force Majeure and attempt to resume performance of the obligations delayed or prevented by the event of Force Majeure. After the event of Force Majeure is removed, both parties agree to resume performance of this Agreement with their best efforts.

13. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and shall be deemed to be duly given when it is delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of the relevant party or parties set forth below.

Party A: [Person, position, company name and address, e-mail, fax number]
Attention:

Party B: [Person, position, company name and address, e-mail, fax number]
Attention:

14. Assignment or Sublicense

The Licensee shall not assign, lease, pledge, sublicense, or in any other way transfer the rights or responsibilities Licensed pursuant to the Agreement to any third party/parties, or transfer the economic benefits of the license granted hereby or any portion of the rights included therein to any third party without the prior written consent of the Licensor.

15. Amendment and Supplement

The Agreement shall not be amended or modified except by a written

instrument come into force only signed by both parties. The amendment and supplement duly executed by both parties shall be part of this Agreement and shall have the same legal effect as this Agreement.

16. Severability

Any provision of this Agreement which is invalid or unenforceable due to the violation of the relevant laws in any jurisdiction shall be void of effectiveness and binding force within the relevant fields of such jurisdiction without affecting in any way the remaining provisions hereof.

17. Appendices

The Appendices referred to in this Agreement are an integral part of this Agreement and have the same legal effect as this Agreement.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be duly executed by a duly authorized representative each on behalf of the Party hereto as of the date first set forth above.

Licensor:
Representative: _____

Licensee:
Representative: _____

QUIZ

Q1. Identify the incorrect statement:

- 1) Trademarks are intangible rights and the use of such a right by one excludes use of the same by another
- 2) The licensee and the licensor must know as much as possible of each other before entering into an agreement
- 3) Intellectual property assets when externally generated are now recognized as assets for financial reporting purposes
- 4) Intangible assets can be pledged as collateral to a financial institution

Answer: 1)

The inherent advantage of intangible rights is that use of one does not prevent the use by another. A song heard by one can be heard and appreciated by another at the same time. Thus a trademark can be licensed for use by many at the same time.

Q2. Identify the incorrect statement:

- 1) Franchising often includes the licensing of trademarks
- 2) Merchandising is to sell the rights in a trademark\
- 3) Licensing the use of an ingredient or component mark is most effective when the host product is less well known.
- 4) Relying on a certifying mark is a good way of increasing customer recognition and adding value to a product

Answer : 2)

Merchandising is a form of licensing where trademarks, designs, artworks as well as fictional characters (protected by these rights) and real personalities are licensed beyond the core business of the company or the product to add appeal to other, usually, ordinary consumer products such as plates and mugs.

Q3. Identify the incorrect statement:

- 1) An exclusive license provides the licensee with the right to use the trademark to

the exclusion of all, including the licensor

- 2) A licensee may have the right to grant sub licenses
- 3) The renewal and maintenance of licensed trademarks is generally dealt with by the licensor
- 4) Once an agreement has been terminated the licensee has no obligation to return any manuals or other confidential information

Answer: 4)

Most license agreements require the continuation of certain obligations once the agreement is terminated. These usually relate to the maintenance of confidential information, the obligation to continue to pay royalties that were due and payable before the termination of the agreement, which have not been paid, or for the continued use of the mark in the phase out period after termination.

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