

ONC Lawyers
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IP in Commercial Contexts

IP in Commercial Context: Summary

1. IP Due Diligence

- What's IP Due Diligence
- Importance of IP Due Diligence
- IP Due Diligence in the context of trade marks, patents, designs and copyright

2. IP-related clauses in Commercial Contracts

- IP franchise / licence agreement
- Distribution agreement
- Non-disclosure Agreement
- Designer agreement
- Employment agreements

Conducting IP Due Diligence Worldwide

- What is Due Diligence?
 - An evaluation, performed by investors or their agents, into the details of a potential investment or purchase, where the evaluation involves a verification of all the material facts relevant to the investment or purchase
 - A process of evaluating the feasibility of a prospective business decision
 - E.g. whether to acquire a target company
- What is IP Due Diligence?
 - Evaluating the value of IPR in relation to the potential transaction



Importance of IP due diligence

- Understanding:-
 - what IPR is being sold / bought?
 - Your / your client's obligations and liabilities towards the buyer / purchaser

Areas evaluated in IP Due Diligence

1. Ownership and control
2. Economic and Strategic Value
3. Liability and risks



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- [illegible]

IP Due Diligence: Clear Identification & Proof of Ownership

- Full Independent Search on Ownership of IPR
 - E.g. search on the IP history, maintenance fees or renewal fees
 - Important to confirm the IPR are still in force / duration of IPR
 - Do NOT only rely on the IPR particulars disclosed by the other side
- Documents typically required for Identification and Proof of Ownership of IPR:
 - A list of patents, trademarks, and industrial designs and their official register extracts, and copyrights
 - A list of trade secrets of the company
 - All agreements and contracts relating to IPRs.

Possible Consequences in Failing to Identify Ownership of IPR

- Value of the deal reduced
- Transaction of IPR may be delayed/abandoned
- Manufacture may be halted
- IPO: need to prove ownership of trade mark to be placed on cover of prospectus
 - Need to make early application / acquisition / assignment of trade mark

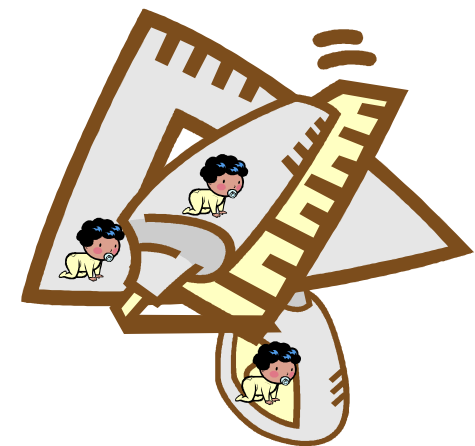


Major Types of IP Rights


Trade marks	a sign that distinguishes the goods and services of one trader from those of others
Patent	Invention: a solution to a specific technological problem, which could be a product or a process
Design	appearance of products
Copyright	right given to the owner of an original work . This right can subsist in literary works, musical works, dramatic works, artistic works, sound recordings, films, broadcasts, cable programmes and the typographical arrangement of published works
Trade secrets / Confidential Information	formula, practice, process, design, instrument, pattern, or compilation of information with commercial value

Illustration of Due Diligence: PRETTY BABY case

- Potential transaction
- Killer product – “Pretty Baby” applies certain technology for interacting with player
- Existing products:
 - “Pretty Baby” toy
 - Video for kids featuring “Pretty Baby” & the Gang
 - Fancy stationery set featuring “Pretty Baby” & the Gang

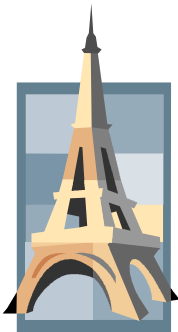


What IP assets are involved?

Trade Mark	 <i>Pretty Baby</i>
Patent	Interactive technology
Copyright	Video; Design sketches; Scripts of “PRETTY BABY” Video; Fancy stationery design
Design	Fancy stationery design
Confidential information / trade secrets	Customer/supplier database

Due Diligence Issues in Trade Mark

- “**Pretty Baby**” registered in relevant class?
 - Class 28: toys
- “**Pretty Baby**” registered in relevant countries?
 - All potential markets e.g. US, Europe (Community TM)
 - Country of manufacture (e.g. PRC, Hong Kong)
 - Market where infringement is rife



Due Diligence Issues in Trade Mark

- Can “**Pretty Baby**” be registered in countries of potential markets?
 - Any bad-faith registration
 - Similar mark registered? e.g. PRETTY BABE
 - Trade mark search for similar marks
- Registration still valid? 10 years
- Continuing use on all registered items in Class 28?
 - if non-use > 3 years: will be subject to revocation
 - Revocation application by third parties, not trademark office/registry
- Any mortgage / licence?

Due Diligence Issues in Trade Mark

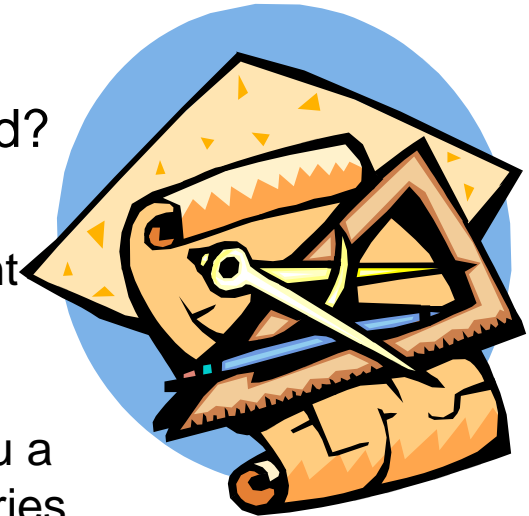
- Who is the current registered owner? E.g. registered by franchisee?
 - Arrange for assignment of trade marks
- Trade mark registration by company or individual?
 - Preferably by company
 - Trade mark rights will be assigned with business
 - Can be licensed to bring revenue
 - Intangible asset to company
 - If by individual: trade mark goes to estate on the death of the owner

Due Diligence Issues in Trade Mark

- Infringement risks
- Need to ascertain prior third party rights in the territory of interest
 - Ensure unfettered right to use trade marks
- By conducting trade mark searches
 - At the official trade mark register (for registered trade marks)
 - At the internet (for unregistered trade marks)
- To lower risk of trade mark infringement and passing-off
- Failure to identify prior rights
 - Unable to manufacture and sale
 - Unable to trade at all

Due Diligence Issues in Patent

- Is the patent applied/registered in countries of potential markets and countries of manufacture?
- Is priority claimed? Within 1-year priority period?
 - If close to the 1-year priority deadline
 - Immediately file application in other relevant countries; and/or
 - Apply for PCT (patent cooperation treaty) (~international application), which gives you a further 1.5 year period to file in other countries
- Has patent expired?
 - What kind of patent? Standard (20 years) or short-term (HK - 8 or PRC - 10 years)?
 - How many remaining years?





Due Diligence Issues in Patent



- Confirm content of patent: Technology relevant to business to be acquired?
- Patentability search: Chance of registration / invalidation
 1. Novelty
 - Prior art in the market?
 - Disclosed in any tradeshow before patent application?
 2. Non-obviousness
 3. Sufficient disclosure: disclose in the patent claim in sufficient detail for the notional person skilled in the art to carry out that claimed invention.
- Patent application in process – any rejection/pending office action?

Due Diligence Issues in Patent

- Who is the applicant? Company or inventor?
 - May require inventor to undertake to assign patent to Company
- Assignment/License affecting patent rights
- Confidentiality and non-compete clause in key employees' contracts

Due Diligence Issues in Patent

- **The Dilemma: To Reg, or Not to Reg?**
- Concern:
 - ☺ exclusive right to exploit during the term of the patent
 - ☺ enforcement right
 - ☺ Prestige and attraction investors
 - ☹ Patent application requires full disclosure
 - ☹ Technology will become available to parties in bad faith
 - ☹ free to use by the public after the patent expires
- Consideration:
 - Costs of R&D
 - Commercial lifespan of patent
 - Ease of “copying” the disclosed technology
 - Likelihood of infringement

Due Diligence Issue in Design

- Is Design registered? (otherwise can only rely on Copyright)
- Is Design registered in countries of potential markets and countries of manufacture? (within 6-month priority period?)
- Has Design expired? 15 / 25 years
- Who is the registered owner? Company or Designer?
- Registrability: “**Pretty Baby**” disclosed in a before Design application?

知識產權署外觀設計註冊處
Designs Registry
Intellectual Property Department

香港特別行政區政府
The Government of the Hong Kong
Special Administrative Region

外觀設計註冊證明書
《註冊外觀設計條例》(第 522 章)
CERTIFICATE OF REGISTRATION OF DESIGN
Registered Designs Ordinance (Chapter 522)

茲證明下述外觀設計之詳情於今日記入註冊紀錄冊
I hereby certify that the design with the following particulars has been entered in the register today:

[11] 註冊編號 Registration No.: 0500433.2
[15] 註冊日期 Date of Registration: 04.03.2005
[51] 洛迦諾分類號 Locarno Classification No.: Cl. 12 - 11
[54] 物品 Article (s)
自行車 Bicycle
[55] 外觀設計的表達 Representation of the Design
見後附表達 See attached representation(s)
[57] 新穎性陳述 Statement of Novelty
表達所顯示的物品的形狀、構形、裝飾及/或上述數者的結合是聲稱具有新穎性的外觀設計特色。
The features of the design for which novelty is claimed are the shape, configuration, ornamentation and/or the combination thereof of the article as shown in the representations.
[73] 註冊擁有人姓名/名稱及地址 Name and Address of Registered Owner
DAKA RESEARCH INC., P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, Virgin Islands, British

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Due Diligence Issues in Copyright

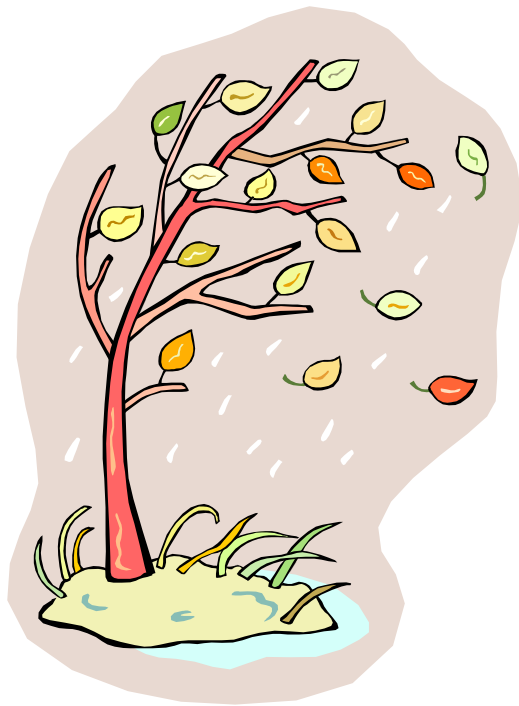
- Identify what copyright is vested in a work
 - E.g. music video:
 - Lyrics: Literary work – lyricist
 - Song: musical work - composer
 - Story: dramatic work – script writer
 - Soundtrack: sound recordings - editor
 - Video: Film – director
 - Check: whether copyright managed by licensing bodies
- Ownership: author is first owner except:-
 - Employee's work belongs to employer
 - Commissioned work (work made at the request of another, e.g. designer contract): by agreement, or commissioner has exclusive licence
- Registered?
- Rights expired? Usually 50 years from the year of death of author, after which the copyright will be in public domain
 - However, copyright may still subsist in adaptations, translated work and the typographical arrangements (排版)

IP Due Diligence

- Some rights are more important than others?
- Depend on the nature of business
- Examples:
 - Franchise of “7-11”: Trade marks would be crucial
 - Distribution of “Harry Potter” books: copyright would be crucial



Lessons to learn...
樹大招風
(Big tree attracts the wind.)



Lesson to learn...

1) Apple and Proview: iPad trademark

- Apple secured iPad trademark rights in Taiwan from Proview Electronics
- iPad trademark rights in the PRC is owned by Proview Electronics' subsidiary, which is not party to the assignment agreement
- Trademark assignment agreements submitted to PRC Trademark Office, subsequent refusal

Lessons to Learn...

2) Apple and.....Countless other competitors

- Different battlefields in different aspects of IPR
- E.g. Patent
- **Apple suing (and then being counterclaimed)**
 - **Creative:** menuing structures on an MP3 player
 - **Typhoon Touch Technologies:** touch screen
 - **NOKIA:** wireless technology for iPhone
 - **Kodak:** digital imaging
 - **Samsung:** countless, more than 50 lawsuits around the globe
- **Apple being sued:**
 - **HTC:** iPhone's user interface, underlying architecture and hardware
 - **Motorola Mobility:** Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components

Lessons to learn...

3) Danone and Wahaha

- Sino-French Joint Venture in the PRC
- JV has exclusive right to use the Wahaha brand
- Trade mark assignment approved by local government but not the PRC Trademark Office
- Chinese partner continued to use the Wahaha brand
- Lawsuits filed battling for the brand
- Global settlement: Danone sold back its shares



Lesson to learn...

4) Tsit Wing v TWG Tea

- *Tsit Wing (Hong Kong) Co Ltd & Ors v TWG TEA Co Pte Ltd & Ors*
- Tsit Wing: Hong Kong based manufacturer and seller of tea and coffee, founded in 1932, listed in Singapore
- TWG Tea: Singapore based luxury tea company, founded in...NOT 1837
- Tsit Wing obtained injunction against TWG's use of their trade marks



Lessons to learn...

- Always make sure that:-
 - All IPR are valid
 - The seller is the correct party and entitled to grant the IPR
 - All IPR have been identified in the agreement



IP-related agreements



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- A close-up photograph of a red pen with gold-colored accents resting diagonally across a contract document. The document is titled "CONTRACT" in large, bold, black capital letters. Below the title, the text reads "THIS AGREEMENT made this _____ day of _____, 20____". Further down, it says "WITNESSETH: That in consideration of _____ kept and performed on the part of _____ Said party of _____ (First Party) _____ (Second Party), _____ covenants and agreements to be _____ hereof, respectively as herein stated: _____ and agrees that it shall: _____". The bottom of the image shows the beginning of another line: "Said party of the _____". The lighting is warm, and the background is slightly blurred.

1. IP Franchise / Licence Agreement:

- Franchise Agreement VS Licence Agreement
 - **Franchise:**
 - involves grant to use business model, brand name
 - Retains control over business operation
 - Usually includes a licence agreement
 - **Licence:**
 - Grant of right to use IPR

1. IP Licence Agreement:

- Licence Agreement
 - An agreement entered between an IP rights owner (licensor) and a licensee authorizing the licensee's use of the IP rights for an agreed payment
 - Effective means to achieve business goal e.g. expansion of business

1. IP Licence Agreement:

- Significance of Licence Agreement
 - Identify the subject matter of IPR and the type of rights licensed
 - Set out scope of grant
 - Prevent unauthorised use of the licensed rights by the licensee
- For companies with substantial IP assets:
 - Enforcement goes hand in hand with IP Licence
 - E.g. Licensing bodies

1. IP Licence Agreement:

- Significance of Licence Agreement to a **Licensor**
 - Expansion of business to the licensee's business (e.g. nature or territory of business)
 - Stable income from licence fee or royalty
 - Acquiring goodwill / reputation through licensee
 - Increase of brand value
- Significance of Licence Agreement to a **Licensee**
 - Exclusive right to use the IP rights which may be prevented from doing otherwise



1. IP Licence Agreement:

Key terms in Licence Agreement

- Accurate identification of IPR granted
- Nature of grant:
 - Exclusive
 - Sole
 - Non-exclusive
- Consideration:
 - Fixed licence fee; or
 - Percentage of revenue; or
 - Both (payment of minimum guarantee plus percentage of revenue)
- Duration of grant

2. Distribution Agreement

- Between supplier and distributor
- Usually includes IP licences
- Distribution Agreement vs Franchise Agreement
 - Supplier: owner of manufacturing rights, wishes to utilise the distribution network of the distributor
 - Franchisor: owner of right to IPR and business model, wishes to utilise the operation power of franchisee (e.g. McDonalds, 7-11)

2. Distribution Agreement: Scope of Rights Granted

- Nature of grant: Exclusivity
 - Exclusive right or non-exclusive right?
 - Territorial exclusivity?
 - Duration for which exclusivity is granted
 - Any exceptions to exclusivity?

2. Distribution Agreement: Scope of Rights Granted

- Other important terms in Distribution Agreement
 - Restrictive covenants:
 - not to deal with similar products after termination
 - Non-solicitation
 - Confirmation of ownership of rights

2. Distribution Agreement:

- **Termination of Distribution Agreement**
 - Who can terminate? Distributor vs Supplier
 - Under what circumstances the agreement can be terminated?
 - Consequences of termination
 - delivery-up of products
 - Surrender / assignment of all acquired rights
 - Outstanding payment

2. Distribution Agreement:

Enforcing Distribution Agreement

- Common: HK companies to enter into distribution agreement with PRC companies
- Anticipate breach by the other side
- The agreement should provide for:-
 - Immediate termination and right to damages upon the other side's breach
 - Cross-border agreement: provide for arbitration, and enter agreement with the other side's HK subsidiary

3. Non-Disclosure Agreement (NDA): Scope of Confidential Information (CI)

- Information that are legally protectable in NDA are stated in TRIPS (Trade Related Aspects of Intellectual Property

Rights):

- Must be secret information
- Must have commercial value
- The owner must have taken reasonable steps to keep it secret

TOP SECRET

3. Non-Disclosure Agreement

- Subject of non-disclosure:-
 - IP rights:
 - Copyright
 - Design
 - Confidential information / Trade secrets, .e.g. Client's
- When to require other parties to sign?
 - Inviting new customers to visit manufacturing plant
 - In franchise / distribution agreements

TOP SECRET

4. Employment Agreements: Restrictive Covenants

- **1) Non-disclosure of confidential information / trade secrets**

- Use of express terms to protect confidentiality during and after termination of employment
- Define clearly what information falls under trade secrets/CI
- Possible to obtain an injunctive relief from court to prevent employee from disclosing trade secrets/CI obtained from employment



4. Employment Agreements: Restrictive Covenants

- **1) Non-disclosure of confidential information / trade secrets**
 - **What is confidential information**
 - Information of confidential nature
 - Information communicating in circumstances importing an obligation of confidence
 - unauthorised use of the information

4. Employment Agreements: Restrictive Covenants

- 1) Non-disclosure of confidential information / trade secrets
 - 3 classes of information that employee may receive
 - Case law: (*Faccenda Chicken v Fowler* [1986])



Categories	Protection	Examples
Specific trade secrets	protected with or without restrictive covenant	1. Chemical formulae 2. Secret process of manufacture 3. Patent in development which has not been disclosed
Confidential information (expressly told or obviously confidential)	1. protected with or without restrictive covenant during employment; 2. not protected after leaving employment	1. Customer information, 2. identified business opportunities, 3. internal pricing and supplier information
Trivial or public Information	Not protected	1. Working hours 2. Published patent

4. Employment Agreements: Restrictive Covenants

1) Non-disclosure of confidential information / trade secrets

- Application not limited to ex-employees
- Effect of breach for existing employees:
 - Summary dismissal is possible, especially if specifically provided for in the employment agreement

2) Non-solicitation

3) Restriction from working in the same trade

- **Remarks to employer: Restrictive covenants must be carefully drafted and reasonable (scope and extent of restriction)**

5. Designer Agreements

- Subject of IPR
 - Copyright: first author is owner, Unless otherwise stipulated by agreement
 - Design
 - Trade marks
- Ownership of IPR
 - Vesting of IPR in the company (by stipulating the company as owner / requiring the designer to assign to company)
 - Alternatively, granting exclusive licence to company
- Breach of third parties' IPR
 - Warranty
 - Limitation of liability
 - Indemnity

ALWAYS.....

- Conduct IP due diligence before transaction
- Get IP agreements reviewed by legal advisor during negotiation and before execution

solutions • not complications