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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

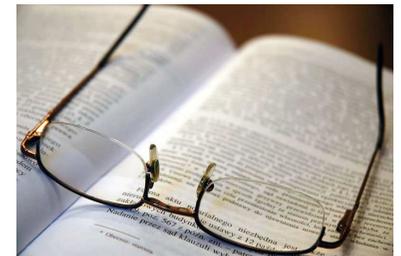
2. IP-related clauses in Commercial Contracts

- 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



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

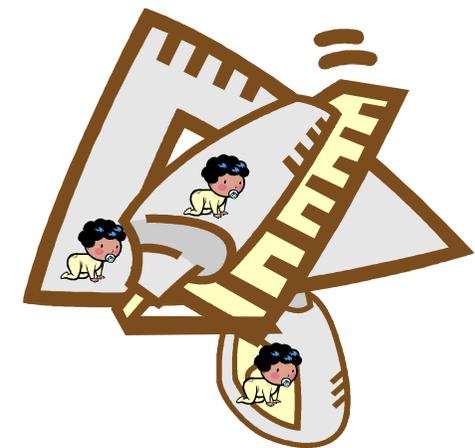


Major Types of IP Rights

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



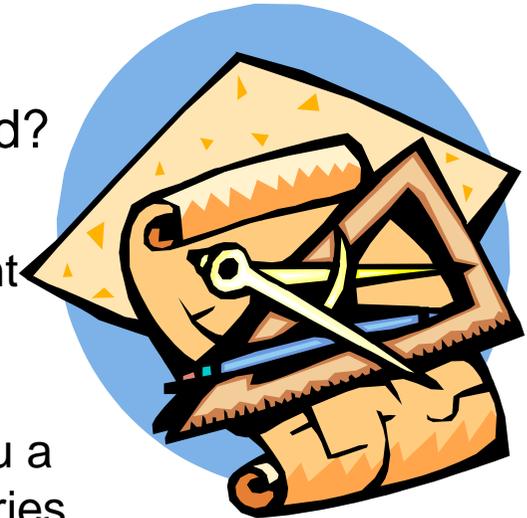
Due Diligence Issues in Trade Mark

- 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?



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

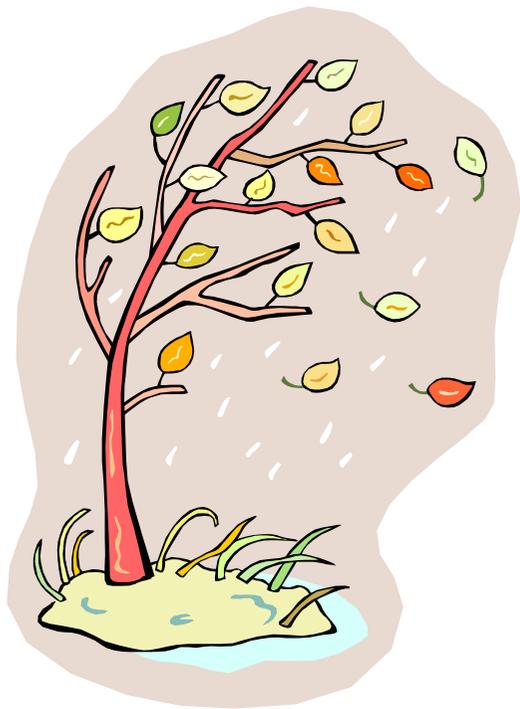




Lessons to learn...

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

(A)



TWG 捷榮集團

(B)



TWG 捷榮集團



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



Important terms / issues in relation to IP-related agreements

1. IP franchise / licence agreement
2. Distribution agreement
3. Non-disclosure Agreement
4. Designer agreement
5. Employment agreements



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	<ol style="list-style-type: none"> 1. Chemical formulae 2. Secret process of manufacture 3. Patent in development which has not been disclosed
Confidential information (expressly told or obviously confidential)	<ol style="list-style-type: none"> 1. protected with or without restrictive covenant during employment; 2. not protected after leaving employment 	<ol style="list-style-type: none"> 1. Customer information, 2. identified business opportunities, 3. internal pricing and supplier information
Trivial or public Information	Not protected	<ol style="list-style-type: none"> 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