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Optimizing the Value of Your Intellectual Property

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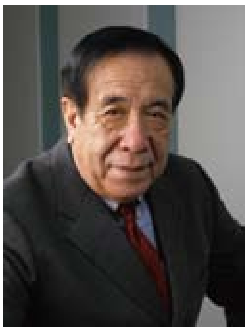

Dear Colleagues,

The beautiful Spring is coming. We have just said goodbye to a successful 2007 and entered a more promising year of 2008.

In 2007, IPBA and IBA worked closely and successfully in many events. And I am sure this cooperation will continue and progress, for it benefits the mutual understanding between the two organizations and communications among attorneys from different pieces of the world.

Last Winter, I had travels to some cities in China and communicated with attorneys there. Most of them showed great interest in IPBA, especially the IPBA Los Angeles Annual Conferences and the various programs of each Profession Committees. Therefore, I encourage all council members to do more promotion work for IPBA.

Preparations for the IPBA 2008 Los Angeles Annual Conference in April are well underway. Mr Gerold W Libby and his workmates have been doing an excellent job in it and I have no doubt that this LA Conference will again be a great success, benefiting all participants and attracting more attorneys to join IPBA.

Sincere thanks from me are due to Mr Arthur Loke and the Secretariat for their dedication and contribution to IPBA.

I look forward to seeing all of you and the many new faces in Los Angeles.

Best Wishes,

Zongze Gao
President

The Secretary-General's Message

Dear IPBA Members,

The Annual Conference and General Meeting will soon be upon us, and there is nothing in our calendar each year that is more significant than this event. If you have not finalized plans to attend this Conference from 27th to 30th April 2008, which promises to be a conference with the very best educational and social programs, I hope this message will prompt you to do so.

For myself, to be on US soil again, is something I am looking forward to. I will have a chance to observe first hand how the US presidential race is going, not by just getting the news from CNN, but by speaking to real people and reading local news. I want to be able to visit Malibu which had been devastated by the fires to see how people are coping in that area. I want to enjoy again the friendliness and generosity of ordinary Americans in my daily contacts on the streets of LA, observe how the sub-prime crisis has impact on people in LA, and to be uplifted by ordinary American's predictable resilience and optimism in the face of temporary adversity. Without seeing and understanding for myself (and, hopefully, to be recharged by) the mood in America I will not be able to fully understand how this will affect Asia and its economies, particularly its impact on my own country. I hope you will all share with me this curiosity to find this out for yourselves. Come to LA so that we not only see America together but to enjoy each other's friendship again.

Best regards,

Arthur Loke
Secretary-General

Kuala Lumpur Mid-Year Council Meeting

Domain Name Abuse—A Global Menace

Purvi J Patel

David A Bell

This article examines the growing problem faced by corporations and other brand owners of domain name abuse and cybersquatting, whereby their valuable brands are used by unrelated third parties for their own profit

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Most brand owners appreciate the value of domain names in today's marketplace—but the importance of securing the right domain names, particularly in the international context, is oftentimes an afterthought. The right domain names constitute prime 'virtual' real estate that can leverage a company's global visibility, draw in new customers, and significantly impact the bottom line—so it is critical that companies, and their lawyers, focus on protecting them.

To put the value of domain names in perspective, <sex.com> recently sold for over $12 million, both <business.com> and <diamond.com> purportedly commanded $7.5 million each, and <vodka.com> was purchased in the $3 million range. Because the stakes are obviously high, cybersquatting and related cybercrimes remain a source of major concern. This problem is not new by any means, but disturbing upward trends in cybersquatting makes it even more deserving of continued attention from brand owners and their counsel. Specifically, according to studies of some of the world's strongest brands by a leading trademark monitoring service, MarkMonitor, cybersquatting increased nearly threefold during 2006 alone.[1] It increased by another thirty-three percent in 2007.[2]

Cybersquatting

Under the United States Anticybersquatting Protection Act (the 'ACPA'), 'cybersquatting' is defined as registering, trafficking in, or using a domain name that incorporates another's trademark, including a personal name which is protected as a mark, or a trademark confusingly similar thereto, with a bad faith attempt to profit from holding those domain names.[3] With minor tweaks, a large number of countries and regions, including Australia, Canada, the European Union, Hong Kong, India, Japan, and Singapore, define cybersquatting in the same way. By way of example, a third party who registers the domain name <*waltdisneyworldtoys.com*> without permission from Disney Enterprises for purposes of diverting traffic to a competitive site is a cybersquatter. One variation of cybersquatting is 'typosquatting', whereby someone registers and uses in bad faith domain names with misspelled versions of third party trademarks, *eg*, <*saksfithavenue.com*> or <*wallstreetjournel.com*>.

Cybersquatting is by no means region-specific and is most definitely an international problem—with a growing emphasis on Asia. While there traditionally has been a tendency to focus on top level domains such as <.com> and <.net>, cybersquatting is becoming especially popular with respect to lower cost country specific domain name extensions ('ccTLDs') such as China's .cn, India's .in, and South Korea's .kr.[4] For instance, with <.in> domain name registration costs falling as low as US$5, well known brands like PepsiCo, SonyErisson, Baccarat, and Google have all fallen victim to squatters in India.[5]

To deal with this menace, many brand owners, including the aforementioned companies, have been enforcing their rights via arbitration proceedings pursuant to various domain name dispute resolution policies. With respect to generic top level domain names or gTLDs, (including *.aero, .biz, .cat, .com, .coop, .info, .jobs, .mobi, .museum, .name, .net, .org, .pro, .tel and .travel*), the Internet Corporation for Assigned Names and Numbers (ICANN), the organization that oversees these domain name systems, promulgated and adopted the Uniform Domain Name Dispute Resolution Policy (UDRP) in 1999. All ICANN-accredited registrars are required to follow the policy, and pursuant thereto, an administrative proceeding before an approved dispute resolution service provider is mandatory when a third party complainant alleges the following: (1) the registrant's domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; (2) the registrant has no rights or legitimate interests in respect of the domain name; and (3) your domain name has been registered and is being used by the registrant in bad faith. If a complainant successfully proves these three elements, the infringing domain name will be transferred to the complainant. These proceedings can be quite cost-effective in that they simply involve the filing of a written complaint and a possible rebuttal filing by an infringing registrant. Even more, if a complainant is unsuccessful under an administrative domain name dispute resolution procedure, they may be able to take a second bite at the apple—many jurisdictions give no deference to a panel's refusal to transfer a domain name.

Only three agencies are currently accredited by ICANN to hear UDRP administrative complaints: the World Intellectual Property Organization (WIPO), the National Arbitration Forum (NAF), and the Asian Domain Name Dispute Resolution Centre (ADNDRC).[6] With the growth of cybersquatting, the number of administrative domain name disputes recently filed has also risen significantly. In 2007 alone, more than 2,150 UDRP complaints were filed with WIPO, and more than 1,800 UDRP complaints were filed with NAF. Moreover, in 2006 and 2007, more than 100 complaints were filed with the ADNDRC, which is about the same number of complaints it received in all four prior years combined.[7]

With the recent launch of the <.asia> TLD, which was designed to enable companies and individuals to increase their presence to the Asian/Pacific market, the ADNDRC is likely to see many more complaints. Although attempts to minimize cybersquatting were made by instituting 'pre-sale' options for <.asia> domain names to verified trademark owners, a 'landrush' period recently began, whereby anyone, anywhere in the world, regardless of whether they own valid trademark rights in the terms that correspond to the domain names they select, can purchase domain names with the <.asia> TLD. Since the <.asia> TLD is subject to UDRP proceedings, to the extent that brand owners have not yet registered their relevant domain names, disputes will likely ensue in the near future.

Many ccTLDs that are not subject to the UDRP subscribe to dispute resolution policies that are quite similar. For instance, India's <.in> Domain Name Dispute Resolution Policy (INDRP) and the <.jp> Domain Name Dispute Resolution Policy both practically track the UDRP, with the exception that these policies appear to make it sufficient that a complainant prove that the registrant *either* registered or subsequently used the domain name in bad faith, as opposed to the UDRP which requires a complainant to prove both elements. With a few additional minor differences, the Australian <.au> Domain Name Dispute Resolution Policy (auDRP) follows a similar footprint.

The administrator of the Chinese <.cn> TLD, China Internet Network Information Center (CNNIC), also promulgated rules sharing many elements of the UDRP—with one key noteworthy exception. Specifically, Article 2 of the CNNIC Domain Name Dispute Resolution Policy incorporates a statute of limitations provision whereby it will not accept a complaint regarding domain names that have been registered for more than two years. So what can a trademark owner do if the two year term has passed? As in most countries, they can seek remedies with their local and national courts.

Obviously, litigation in lieu of arbitration may be warranted in other circumstances. Under

the UDRP and most of its progeny, a brand owner's only remedy is acquisition of the domain name—no monetary damages or attorney's fees are available. Accordingly, in more egregious cases, brand owners may want to file suit against a cybersquatting infringer. Of course, a trademark owner should engage in forum shopping in order to determine which countries' laws may be more favorable in light of the circumstances. In the United States, for instance, if all jurisdictional requirements are met, federal trademark infringement and unfair competition laws, as well as the ACPA, could all be invoked against a cybersquatter. Moreover, under the ACPA, a trademark owner could obtain injunctive relief, actual monetary damages or statutory damages of not less than $1,000 and not more than $100,000 per domain name, and in exceptional cases, attorneys' fees. On the other hand, in certain countries, domain name infringement may not be covered by national trademark and unfair competition laws—so absent a targeted statute akin to the ACPA, a trademark owner may be without a remedy.

Newer Types of Cybersquatting

The recent spike in cybersquatting and related disputes are due in part to new trends in the domain name infringement arena, several of which are discussed below.

Domain Name Tasting. A five-day grace period exists, during which a domain name registration may be rescinded, without the registrant incurring the usual registration fee. The listed purpose for this policy is to remedy typographical errors and the like that can occur during the registration process. However, some unscrupulous companies are using this grace period to test the marketability of certain domain names, many which consist of misspellings of company and brand names. These domain names are commonly directed to parked websites with advertising links, and the persons and companies involved earn money when website visitors click on the links therein. The registrants track the amount of traffic received at those sites, and cancel the lesser visited domain names with no fee or penalty. Approximately four million domain names are tasted each day, and this practice is only increasing.[8] By some estimates, there are even more domain names being tasted than there are 'permanently' registered domain names at any given point.[9] ICANN has been considering eliminating, or charging its usual fees for domains canceled within, the five-day grace period in order to avoid this practice.

Domain Name Kiting. Some 'tasters' register domain names, drop them within the five-day grace period, then reregister them, and continue this approach in perpetual cycles. This activity, referred to as domain name 'kiting', provides domain name owners with an economic benefit, as they receive money when visitors to their websites click on advertising links therein. Not only do these sites crowd the Internet, but they also may cause various harms to brand name owners, including customer confusion, loss of goodwill, and loss of revenues. Additionally, this activity wastes trademark owners' resources. For instance, where employees of trademark owners, their domain name or trademark vendors, or their outside counsel review potential cybersquatted hits in monitoring reports, those individuals must parse through many of these domains being tasted. It also requires time and effort to research potentially infringing domain names, and subsequently have them deactivated and/or transferred to their rightful owners. Yet, by the time of an investigation is conducted, a demand letter is drafted, or a UDRP complaint is filed, the registrants have often cancelled the domain in question.

Domain Name Spying. Another development of concern to brand owners in the domain name arena has been referred to as domain name 'spying', and has also been called 'research theft', 'datamining', or 'front running'. This practice involves purchasing domains shortly after learning that an interested party checked their availability. Put another way, the companies that perform this activity monitor third parties' searches for domain names that are likely to contain either established or new trademarks, and then purchase those domain names or other domain names containing those phrases before the rightful owners obtain them. ICANN has recently passed resolutions against domain spying, while at the same time expressing doubts as to whether this practice is truly occurring at the rates by which some fear.

Phishing. Some thieves have taken their scams to the world of cyberspace. These bad actors operate by distributing emails to divert people to websites that appear very similar to companies' true sites, but are instead phony sites used to obtain personal financial information. Banks and other companies in the financial sector are the most common targets of so-called 'phishing' schemes, although these thieves are increasingly targeting other companies such as social networking sites and companies that distribute a range of packaged goods.[10] In addition to stealing money and identifications, phishing has been dissuading many people from transacting business online, and that could decrease some companies' profits.

Spam Notices from Chinese Entities. Notices are also commonly being distributed by email and mail to brand owners by several Chinese companies. These notices typically claim that other persons or companies will hijack your trademarks in a <.cn> domain name or Internet keyword (also referred to in notices as an 'Internet brand'), unless you immediately engage their companies to purchase these on behalf of your own company. In most cases, these are scams and the distributors of these notices are acting unethically.

What Can You Do to Prevent Such Attacks on Your Client's Brands over the Internet?

Register Key Domain Names. Clients should proactively register their key domain names in current and future markets. While a company can never own all possible domain names that incorporate its brands, the best offense is defensive registration. Companies should consider purchasing the obvious spellings and misspellings of its primary brands, with the TLDs that are most commonly used and searched worldwide, including .com, .net, and .org. Also, strongly consider registering domain names with the regional or country code TLDs—including <.asia>, <.cn>, <.jp>, <.in>, <.hk>, <.sg> (Singapore), <.au>, <.ca> (Canada), <.co.uk> (United Kingdom), or <.eu> (Europe) and the like—that correspond to the regions in which your client operates or markets its products or services. To the extent that a company is permitted to do so without a commercial establishment or other contacts in a region, clients should also consider registering domain names in countries where they intend to operate in the near future. As an anecdote showing you should not wait to register, Google does not own the <gmail.cn> domain name, because a third party appears to have legitimately registered the domain name before Google set sight on China for its gmail offering.

Register without Hesitation. To avoid being victimized by domain name spying, companies should register domain names of interest upon learning that they are available. Further, use only reputable companies or websites to conduct domain name availability searches.

Renew Domain Names. Remember to prompt your client to renew the domain names it has acquired. Some companies configure their domain name settings to automatically renew the domains annually, or purchase them for years in advance to minimize the need for monitoring them. Also, make sure that any departing employee hands over access to company domain names.

Monitor the Internet. Several services charge annual fees to monitor the Internet for possible infringement of key brands, and intellectual property counsel can assist with this process. Companies and their counsel can also use less robust, but free websites, such as <www.Namedroppers.com> and <www.Tldscan.com>, to search for domain names incorporating their clients' trademarks or company names.

What Can You Do If a Third Party Has Already Registered a Domain Name that is Valuable to Your Company's Business?

Send a Demand Letter. This is a common and cost effective method to address another's unauthorized and unlawful registration of a domain name infringing upon your client's rights. A letter might be sent to the domain name registrant, to request that it turn over the domain name to the rightful owner, or at least to remove the website content at the site. Letters to registrars hosting domain names of concern and advertising or parking service companies posting competitive or offending content also result in relief.

Offer to Purchase the Domain. Consider making an anonymous offer to the registrant to buy the domain name at issue. Concealing the company's identity could improve the likelihood that the registrant will agree to sell for a reasonable amount.

Place a Backorder for the Domain Name. Another tactic is to place a backorder to purchase a domain name, whereby the company can get in line to offer to purchase it. Typically, backordering services only charge a fee (and a relatively small one, at that) when the backorder is successful.

File an Administrative Complaint. As discussed above, an administrative complaint may be filed under the UDRP to request that a domain name be transferred.

File a Lawsuit. In some instances, the facts might warrant proceeding with litigation. Several lawsuits have been filed in the United States during the past couple of years to counter the newer forms of cybersquatting. For example, two large retailers sued the registrar Dotster, claiming it conducted domain name tasting on a mass scale as both the registrar and registrant. The parties settled the case on March 21, 2007, with Dotster agreeing to not register or otherwise use any domains confusingly similar the plaintiffs' marks.[11] Shortly thereafter, a United States court preliminarily enjoined a company from registering any domain names confusingly similar to Verizon's trademarks, after the court took note of the defendant's domain name tasting, kiting, and other cybersquatting activities.[12] Also, Dell is suing a handful of registrars, including Belgiumdomains, Capitoldomains, and Domaindoorman, for a variety of allegedly abusive domain name registration practices.[13]

Conclusion

Companies are unlikely to prevent or stop all unfair and illegal activity on the Internet affecting their trademarks. Additionally, the vast size of the Internet and large scale of cybersquatting can be overwhelming. However, taking several of the steps described above can be extremely useful in protecting valuable brands.

As with all areas of the law, the most appropriate steps to take will vary depending on each scenario. Factors to consider include the importance of the domain name and brand to your client's business, your client's budgetary constraints, the timeframe by which your client desires to retrieve the domain name, the type of website content currently found at the domain name of interest, and the history and current behavior of the domain name registrant.

Notes:

1. MarkMonitor, *Brandjacking Index* (April 30, 2007).
2. MarkMonitor, *Brandjacking Index* (Winter 2007).
3. 15 USC § 1125(d).
4. Lynn Tan, *Cybersquatting escalates in Asia*, CNETNews.com (October 8, 2007), *at* http://www.news.com/Cybersquatting-escalates-in-Asia/2100-1030_3-6212187.html.
5. Harsimran Singh, 'Cyber-squatting: The New Gateway to Identity Crime,' *Economic Times (Mumbai Edition)* (October 30, 2007).
6. The ADNDRC is a joint undertaking by the China International Economic and Trade Arbitration Commission or 'CIETAC' (the leading international commercial arbitration institution in China), the Hong Kong International Arbitration Centre or 'HKIAC' (an independent non-profit alternate dispute resolution organization) and the Korean Internet Address Dispute Resolution Committee or 'KIDRC' (the sole dispute resolution provider for the <.kr> South Korean TLD). CIETAC and HKIAC are the two domain name dispute resolution providers for the <.cn> TLD for China. HKIAC has also been named as the domain name dispute resolution provider for the <.hk> (Hong Kong), <.pw> (Palau), and <.ph> (Philippines) TLDs.
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9. Monika Ermert, 'Criminal Checks Needed for Domain Name Tasting, Kiting, Spying' (May 7, 2007), CircleID, *at* http://www.circleid.com/posts/criminal_checks_domain_name_tasting_kiting/ (last visited July 10, 2007).
10. MarkMonitor, *Brandjacking Index* (Winter 2007).
11. Stipulated Permanent Injunction and [Proposed] Order and Judgment, *The Neiman Marcus Group, Inc v Dotster, Inc,* No C06-5292RBL (WD Wash March 22, 2007).
12. *Verizon Cal Inc v Ultra RPM, Inc,* No 2:07-cv-02587-PA-CW (CD Cal September 10, 2007).
13. Complaint, *Dell Inc v Belgiumdomains, LLC*, No 07-22674 (SD Fla October 10, 2007).

Ethics in Copyright Litigation in the United States

This article explains the various rules of professional conduct that govern legal representation in the United States, and that apply equally to copyright and other litigation

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Legal Knowledge and Skill

Once you decide to represent a client, Model Rule of Professional Conduct 1.1 requires that you provide competent representation. AMERICAN BAR ASSOCIATION MODEL RULES OF PROF'L CONDUCT (2002) (hereinafter MODEL RULES). Model Rule 1.1 states that '[a] lawyer shall provide competent representation to a client' and defines 'competent representation' as 'legal knowledge, skill, thoroughness and preparation reasonably necessary for the representation.' MODEL RULES R 1.1. The Comment to Model Rule 1.1 outlines factors that determine whether counsel has provided competent representation. MODEL RULES R 1.1 cmt. The factors include the lawyer's general experience, experience in the specific area of law, his ability to devote adequate time to preparing the case, the feasibility of referring the case or associating the case with another attorney, and, most importantly, the complexity of the case. MODEL RULES R 1.1 cmt. The Comment to Model Rule 1.1 contemplates that laws will change from time to time and advises counsel to remain current concerning the areas of their specialization through attending continuing legal education ('CLE') programs and studying the areas on their own. MODEL RULES R 1.1 cmt.

Scope of Representation

Counsel should send an engagement letter to a new or existing client following the initial consultation pertaining to the new case. In the letter, counsel should describe the scope of representation and fees, and note other expenses which may arise during the representation. Model Rule 1.2 states that 'a lawyer shall abide by a client's decisions concerning the objectives of representation and, as required by Rule 1.4, shall consult with the client as to the means by which they are pursued...' MODEL RULES R 1.2. Model Rule 1.2 dictates without any equivocation that the client decides scope of the representation. *See* Model Rules R 1.2. cmt. ('Paragraph (a) confers upon the client the ultimate authority to determine the purposes to be served by legal representation, within the limits imposed by law and the lawyer's professional obligations.') The client, however, typically defers to counsel regarding the means through which the objectives are achieved and the tactical, legal and procedural strategies pertinent to the litigation. Counsel, in turn, defers to the client regarding whether counsel may incur certain expenses and regarding third parties implicated in the event that counsel initiates certain tactics. Therefore, counsel should communicate frequently and effectively with the client and share all potential strategies, expenses and third party concerns. Likewise, counsel should apprise the client on a regular basis regarding the overall strategy and its likelihood of success.

In sum, '[t]he client should have sufficient information to participate intelligently in decisions concerning the objectives of the representation and the means by which they are to be pursued, to the extent the client is willing and able to do so.' MODEL RULES R 1.4. cmt.

Conflicts of Interest

The presence or absence of a conflict of interest determines whether counsel may represent a new client or an existing client in a new matter. Model Rule 1.7 governs conflicts of interest pertaining to existing clients and provides that 'a lawyer shall not represent a client if the representation involves a concurrent conflict of interest'. MODEL RULES R 1.7. Model Rule 1.7(a) defines a concurrent conflict of interest as 'representation of one client ... directly adverse to another' or '[a] significant risk that representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.' MODEL RULES R 1.7(a).

Model Rule 1.7(b) permits concurrent representation so long as counsel reasonably believes that he or she is able to provide competent representation to each client, the representation is not prohibited by law, the representation does not involve a client asserting a claim in litigation against another client, and each client provides written consent. MODEL RULES R 1.7(b). The third factor expressly prohibits counsel from representing opposing parties in litigation. The Comments to Model Rule 1.7(b) observe that, '[o]n the other hand, simultaneous representation of parties whose interest in litigation may conflict, such as coplaintiffs or codefendants, is governed by paragraph (a)(2).' MODEL RULES R 1.7(b) cmt. Model Rule 1.7(a)(2) explains that a conflict of interest exists in the event that a significant risk subsists that 'representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.' MODEL RULES R 1.7(a)(2).

In *Original Apalachian Artworks, Inc v May Dept Stores Co*, 640 F Supp 751 (ND Ill 1986), an example of a case addressing conflicts in the copyright litigation context, the plaintiffs asserting copyright infringement and other claims pertaining to allegedly infringed stuffed teddy bears contended that the defendant's law firm previously represented the plaintiff and currently represented companies adverse to the defendants and implicated in the litigation. *Id* at 751. The defendant's law firm represented licensees of the plaintiff's spin-off teddy bears at the time and also performed copyright, trademark and patent services for the licensees although not related to the teddy bear products. *Id* at 752. The defendant's law firm also prepared copyright registrations in the plaintiff's name on behalf of one of the licensees regarding an unrelated Cabbage Patch Kids(r) product. *Id*. The court held that the law firm's work concerning the unrelated products did not present a conflict of interest in the present litigation because the law firm averred that the law firm did not obtain confidential information concerning the plaintiff from the licensees and because the attorney who registered the copyrights would likely not testify in the present litigation. *Id* at 756-57. The court, furthermore, held that the licensees did not possess an interest in the present litigation because the case did not involve the licensees' products. *Id* at 758.

Model Rule 1.9 explains conflicts of interest concerning former clients. Model Rule 1.9(a) provides, '[a] lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.' MODEL RULES R 1.9(a). In the copyright litigation context, in *Planning & Control, Inc v MTS Group, Inc*, 1992 US Dist LEXIS 2004, *2 (DNY March 11, 1992), the plaintiffs filed a motion to disqualify the defendant's attorney and had alleged that the plaintiffs owned copyrights in various software training materials, which the defendants ostensibly infringed. The defendants counterclaimed and alleged infringement concerning certain computer software registered with the Copyright Office by the plaintiff's law firm. The defendants claimed that the plaintiff's law firm previously represented the owner of the software copyright in litigation against the plaintiffs that substantially related to the present litigation. *Id* at *2-3. The defendants contended further that the copyright owner of the software entrusted the law firm with confidential information concerning the training materials, the subject of the present case. *Id* at *3. The court denied the defendant's motion seeking disqualification and

Photo: Eugene Kuklev

found that the prior litigation involved computer software and not training manuals, the subject of the present case, and that the copyright registration pertaining to the computer software did not relate to the present litigation either. *Id* at *11.Thus, the court found that the defendant's motion failed to satisfy the "substantially related" standard. *Id* at *10-11. In addition, the court dismissed the defendant's argument that the law firm's involvement in the present case created an appearance of impropriety since the "substantially related" requirement had not been satisfied. *Id* at *13.

Rule 11(B) and Ethical Considerations

Once counsel undertakes to represent a client in litigation involving copyright infringement and determines that no conflicts of interest exist, counsel should remember that Federal Rule of Civil Procedure 11 imposes a duty upon counsel to not marshal claims or defenses lacking adequate support in the law and facts. FED R CIV P 11. The court may impose sanctions pursuant to Rule 11(c) in the event that counsel violates Rule 11(b). FED R CIV P 11(c). In particular, Rule 11(b) dictates that an attorney filing documents with the court certifies that he or she performed a reasonable investigation. Rule 11(b) provides as follows:

> By representing to the court (whether by signing, filing, submitting, or later advocating) a pleading, written motion, or other paper, an attorney or unrepresented party is certifying that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances—
>
> (1) it is not being presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation;
>
> (2) the claims, defenses, and other legal contentions therein are warranted by existing law or by a nonfrivolous argument for the extension, modification, or reversal of existing law or the establishment of new law;
>
> (3) the allegations and other factual contentions have evidentiary support or, if specifically so identified, are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery; and
>
> (4) the denials of factual allegations are warranted on the evidence or, if specifically so identified, are reasonably based on a lack of information or belief.

See FED R CIV P 11(b).

Various factors apply to the Rule 11 analysis. 'To determine whether to impose Rule 11 sanctions, the court first determines "whether the party's claims are objectively frivolous—in view of the facts or law—and then, if they are, whether the person who signed the pleadings should have been aware that they were frivolous; that is, whether he would have been aware had he made a reasonable inquiry."' *Footman v Cheung*, 2005 US App LEXIS 9865, *3-4 (11th Cir 2005) (quoting *Worldwide Primates, Inc v McGreal*, 87 F3d 1252, 1254 (11th Cir 1996)). 'The reasonableness of the inquiry may depend on such factors as how much time for investigation was available to the signer, [or] whether he had to rely on a client for information as to the facts underlying the violative document.' *Id* at *4.

Model Rule 3.1 outlines a similar standard concerning claims, stating that '[a] lawyer shall not bring or defend a proceeding, or assert or controvert an issue therein, unless there is a basis in law and fact for doing so that is not frivolous, which includes a good faith argument for an extension, modification or reversal of existing law.' MODEL RULES R 3.1. The Comment to Model Rule 3.1 explains that, pursuant to Model Rule 3.1, a lawyer may assert an argument in good faith without believing that the argument will actually prevail. MODEL RULES R 1.9(a) cmt. The Comment to Model Rule 1.3 provides that '[w]hat is required of lawyers ... is that they inform themselves about the facts of their clients' cases and the applicable law and determine that they can make good faith arguments in support of their clients' positions.' *Id*. The Comment explains that '[s]uch action is not frivolous even though the lawyer believes that the client's position ultimately will not prevail.' *Id*. In the copyright litigation context, the Supreme Court of the United States affirmed sanctions against a corporate plaintiff failing to reasonably inquire concerning claims the plaintiff averred pertaining to copyright infringement, conversion, unfair competition and injunctive relief. *Business Guides, Inc v Chromatic Commc'n Enterprise, Inc*, 498 US 533, 554 (1991). The district court had held that the plaintiff corporation transgressed upon Rule 11, and observed as follows:

> This case illustrates well the dangers of a party's failure to act reasonably in commencing litigation. Here Business Guides, a sophisticated corporate entity, hired a large, powerful and nationally

> known law firm to file suit against a competitor for copyright infringement. This competitor happened to be a one-man company operating out of a garage in California. Two years later, after extensive time and effort on the part of the court, the various counsel for Business Guides, as well as various counsel for Business Guides' counsel, it turns out there was no evidence of infringement. The entire lawsuit was a mistake. In the meantime, the objects of this lawsuit have spent thousands of dollars of attorney's fees and have suffered potentially irreparable damage to their business. This entire scenario could have been avoided if, prior to filing the suit, Business Guides simply had spent an hour, like the court's law clerk did, and checked the accuracy of the purported seeds.

Id at 549.

The Court of Appeals for the Ninth Circuit and the Supreme Court of the United States affirmed the district court's determination. *Id* at 540, 554.

Investigation Prior to Litigation

Prior to filing suit for copyright infringement, counsel must determine whether an action alleging copyright infringement is supported in the law and facts. Registration of a copyright with the Copyright Office is a prerequisite to filing a copyright infringement action. 17 United States Code ('USC') 411(a). ('Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title'.)

Prior to initiating litigation, counsel should investigate whether the client in fact owns the copyright in and to the works. In the event counsel does not perform a reasonable pre-litigation investigation, and the court determines that an action alleging copyright infringement lacks bases, the court may impose sanctions pursuant to Rule 11. See, *eg*, *Lloyd v Schlag*, 884 F2d 409, 413 (9th Cir 1989) (affirming sanctions pursuant to Rule 11 where the plaintiff's attorney relied upon his client's unsupported claim of copyright ownership, and finding that '[g]iven counsel's experience, his access to relevant information, and his admitted willingness merely to rely on the word of his client, a layperson, as to the legal and factual underpinnings of the case ... counsel's signature on the original [c]omplaint unquestionably violated Rule 11.')

Statute of Limitations

In addition to performing a thorough investigation concerning the potential claim for copyright infringement, counsel must initiate the action within the statute of limitations. A civil action alleging copyright infringement must be filed within 'three years after the claims accrued.' 17 USC 507(b). A criminal case filed pursuant to the Copyright Act must be 'commenced within 5 years after the cause of action arose.' 17 USC 507(a).

Ethics in Litigation

Counsel should endeavor to exercise candor towards the court and fairness to opposing parties and opposing counsel throughout the litigation. Model Rule 3.3 provides that counsel should not communicate a false statement of law or fact, fail to correct a false statement of law or fact, fail to disclose to the court authority adverse to the client, or introduce false evidence. In addition, Model Rule 3.4 states that counsel must not unlawfully obstruct a party's access to evidence, falsify evidence, knowingly disobey an applicable procedural rule, propound frivolous discovery, comment regarding irrelevant matters during trial, aver personal knowledge or provide personal opinion regarding the justness of a cause, or request a person other than the client withhold relevant information unless '(1) the person is a relative or an employee or other agent of a client and (2) the lawyer reasonably believes that the person's interests will not be adversely affected by refraining from giving such information.' MODEL RULES R 3.4.

Final Ethical Considerations

In addition to the above-mentioned ethical considerations, counsel should remember the other additional ethical concerns pertinent to copyright litigation, including counsel's duty to exercise diligence, such as counsel's role in performing adequate, pertinent discovery, meeting deadlines, and preparing strategies), counsel's duty to stay apprised concerning state ethical guidelines and rules, counsel's duty to remain abreast regarding local rules, counsel's duty to cooperate with sometimes difficult clients, counsel's role in assessing alternative forums such as arbitration and mediation, counsel's role in retaining experts, and counsel's duty to communicate with clients regularly and throughout the litigation and settlement discussions, if any.

Managing Intellectual Property Rights in Mergers and Acquisitions

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This article discusses some of the issues arising out of managing Intellectual Property Rights matters in the context of mergers and acquisitions

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Introduction

In a proverbial smoke-filled room, the principal terms of a merger and acquisition are being finalized. The parties have agreed on how to transfer financial assets such as bank accounts and shares, physical assets such as machinery, equipment or land. They are nearing complete agreement. Suddenly, someone notices an untouched folder labeled 'Intellectual Property Issues.'

'How do we deal with the intellectual property assets?' The question draws a brief uncomfortable silence, and then tired, irate voices break the quiet.

'It's all about due diligence, right? We can put that off till later, right?' 'Can't imagine it will cause any complications.' 'Isn't there some kind of template we could use?'

Experience teaches us however, that where a merger and acquisition ('M&A') activity involves the handling of intellectual property rights ('IPR') as assets, that earlier rather than later attention to them is advisable. If not managed properly, the transfer of IPR assets may result in unexpected complications, costs and risks.

In this article, we will discuss some lessons learned from a Singapore perspective. Even so, it is believed that much of what is said here is likely to have relevance to any practitioner dealing with these issues anywhere in the world.

The Rise of IPR as Assets

Measured as a proportion of the assets in an average company, the value of IPR as intangible assets, has appreciated immensely. In one study, tangible property made up 95% of the average company's book in 1978 with IPR and other intangibles making up the remaining 5%. Twenty years later, that figure was 28% for tangibles and 72% for IPR and other intangibles.[1] For companies with global brands, goodwill alone can account for billions of dollars in asset value,[2] and this is usually underpinned, in part, by an established global trade mark portfolio. As various economies shift towards emphasizing the 'knowledge economy,' it is not surprising to see that IPR are becoming important, if not vital, assets behind the value of any company.

When to Take IPR Issues on Board

Given the growing importance and prevalence of IPR as assets in today's economy, the consideration of IPR issues should addressed as early as possible, including when brainstorming the main terms of the M&A before negotiations.

Critical questions that need to be asked early include: how much of the value of the target company's assets depend on IPR; whether the IPR is to be owned by the target or whether it is likely to be shared or transferred out; whether the IPR has been commercialized and is generating revenue or result in cost savings; and whether an asset valuation is necessary when determining the consideration price being exchanged. The answers to these questions can affect fundamental terms of the bargain including the consideration price to be paid by the purchaser in an acquisition. Additionally, tackling these issues early may help frame key points in negotiations.

Additionally, having an appreciation the key features of IPR will also provide, at this early stage, an advantage in negotiating elements of any M&A transaction. Some examples of how these would apply are discussed below.

Some Pertinent Features of IPR to Consider

IPR are, ultimately, creations of law and in Singapore some applicable statutes are the Copyright Act (Cap 63), Patents Act (Cap 221), Layout-Designs of Integrated Circuits Act (Cap 159A), Trade Marks Act (Cap 332), Registered Designs Act (Cap 266). There are additionally IPR that are underpinned by principles of common law such as the rights protecting trade marks or get-up in the tort of passing off, rights in confidential information. The existence, enforceability, transferability, and, ultimately, commercial value of these rights are therefore inextricably linked to these laws. The proper handling of the IPR in any M&A transaction therefore requires a sound understanding of these underlying laws.

Statutory IPR also present their unique features. The language of those statutes will govern their transferability (assignability).[3] Even in the case of common law rights, transferability may be conditioned by case law.[4] Additionally, the failure to record assignments of registrable IPR may result in only equitable ownership as opposed to full legal ownership. Precision in documents and terminology may be critical.[5]

The territorial nature of IPR creates a further level of complexity—especially where the M&A involves the acquisition of business and IPR assets situated in more than one territory. Although various treaties such as the Paris Convention or Berne Convention exist that provide for a certain level of uniformity in the laws of member countries, there may be variations both in the way certain rules are implemented in local legislation or in the interpretation given to that legislation by local courts. Ready access to a network of reliable local intellectual property associate practitioners may be essential.

IPR as Assets

The valuation of intellectual property assets involves the application of methodologies and economic analysis which are typically not within the domain of legal practitioners. Nevertheless, practitioners should be aware of the fact that various methodologies do exist ranging from market-based approaches (based on market comparisons with similar IPR assets), cost-based approaches (focusing on the costs required to reproduce the original technology), or income-based approaches (focusing on links between the economic returns or income derived from the IPR). Further, various accounting standards may apply in relevant territories which may also need to considered when conducting any valuation.[6]

There are, however certain legal features of IPR which a practitioner needs to be aware of when advising his clients, particularly that of the enforceability and validity of IPR and assessing any risk-benefit analysis of any proposed terms in an M&A transaction.

Take patents, for example. A patent application under the Patents Co-operation Treaty goes through various phases and may not result in an enforceable right in a specific territory until successful grant by the national registry. Before grant, patent applications in Singapore, whilst clearly comprising property that can be dealt with, do not provide the applicant with any legal right to remedies such as injunctions or damages. Further, upon grant, patents need to be renewed annually. The patent claims, which define the scope of the monopoly, may be amended and may be invalidated in the course of a successful challenge at any point in its lifespan. At what point therefore, can the patent be said to have real financial value and how does one track the 'value' of the patent during the course of its lifespan?

Even the concept of a 'license' may require some introspection. In Singapore, it is possible to assign, license, or even mortgage your rights in various IPR such as patents, trade marks or copyright. But can the concept of a 'license' really apply to 'confidential information' where the essence of a 'license' essentially involves disclosure under certain legal restrictions?[7]

As 'assets' therefore, quite apart from the issue of how their financial worth may be quantified, the various forms of IPR present unique challenges in that their very existence, extent and scope will depend on various differing factors which may not be readily appreciable from the outset. One could argue that there is a case for at least conducting preliminary due diligence of the IPR assets at as early a stage as possible.

Due Diligence: Breaking It Down

In many M&A transactions, the practitioner is likely to be confronted with a portfolio of IPR, or, more likely a bundle of assets which 'probably contain' IPR 'somewhere'. As with most legal issues, the key to proper handling of IPR matters in an M&A lies in breaking down the problem into its constituent components and managing each meticulously.

The first step is to arrive at a proper inventory of the assets and have a working understanding of what they are. It not necessary for the practitioner to become an expert in a technological field but a technical brief and some understanding of the function of the 'asset' is important. This will in turn allow the practitioner to tease out the various constituent IPR. So for example, a prototype electronic device may in fact combine copyright works (*eg* computer programs), patentable inventions (eg processes, methods of doing things), design rights, trade marks (*eg* a marketing name) and so on. Indeed, a single product or item may in fact embody different and distinct rights notionally encompassed under even the 'same' IPR, such as copyright,[8] requiring that clearances/assignments for each right to be addressed.

The next step is determining the provenance of these various IPR components (where it was created, who created it, under what circumstances it was created *etc*). This involves tracking down the inventors, the authors, the designers—identifying them, establishing their status (*eg* whether as employees, consultants, citizens and even whether they are minors or 'qualified persons' for the purposes of the Copyright Act),[9] and understanding the legal terms in which they were engaged.

Another step involves identifying various possible deficiencies such as missing or incomplete documents or records, or discovery that confidential information was disclosed to a third party without legal safeguards, or the compromise of the novelty of a possible invention by inadvertent use of the invention in trade, or the failure to secure the agreement of an author/inventor as to ownership. Budgeting time and resources for this is key and may need to be determined at the outset of any engagement.

Experience in the handling of litigious IPR disputes may also allow a practitioner to advise constructively on how extensive a risk may be or how important a particular issue is. An informed prioritization of issues will also allow the practitioner to reach negotiated positions for his clients which ultimately represent a fair and realistic apportionment of risks.

Some Common Problems

A sampling of three of three commonly encountered issues that come up in most IPR matters in an

Photo: Steven Lewarne

M&A is instructive as one can see from these the value of incorporating analysis and review of IPR early through an M&A transaction.

The first issue pertains to difficulties in determining or securing ownership of IPR assets. It is not uncommon to encounter defects in the chain of title to an IPR. Often the problem may lie in the failure to secure rights from the creator/author/inventor, or it may be a defect in the appropriate assignment documentation. Additionally, the rules as to ownership of IPR may vary depending on the IPR in question and this may raise some issues. Further, some jurisdictions provide for mandatory remuneration of employees for their inventions, whilst others, such as Singapore do not.[10] Obligations under mandatory compensation regimes may in turn raise unexpected issues of exposure to financial liability.

A second issue involves addressing third party rights/restrictions that affect title to the IPR assets or their use. These include 'upstream' agreements which license technology from third parties, or collaboration agreements, R&D agreements or technology transfer agreements. It can also include situations where the asset incorporates components which contain third party IPR. In these cases, the transfer of the IPR assets may in turn involve the transfer of the contractual and proprietary grants or rights and obligations under these agreements, and may usually require third party consents. The complexities of procuring consent to any required novation or assignment can present obstacles. Contingency plans need to be made for the possibility of consents not being forthcoming. Hidden costs for consent, whether as a term of consent or as liabilities that need to be assumed or incurred as part of the consent need to be identified and addressed as early in the process as possible.

A third area includes negotiations and disputes over IPR warranties. Warranties can be viewed at as a risk-management device as they essentially apportion the risk of certain contingencies (*eg* risk of claims of infringement by third parties, risk of invalidation of IPRs). When reviewing a standard list of IPR warranties, one useful note to bear in mind is the need to appreciate how each warranty might be applied for a specific IPR.

Take, for example, a warranty of non-infringement in the case of a patent. A fundamental problem with this sort of warranty is that it may not be possible to give such a warranty in good faith—one can never be 100% sure of being free of liability from an infringement claim. Additionally, though a granted patent would disclose novel component, it may incorporate matter which has been claim by a prior patent (*eg* the case of an improvement) in which case, the practice of the later patent without consent of the owner of the prior patent would result in infringement of the prior patent. And this is so even though, intuitively, a granted patent must, by definition, disclose a novel invention. Further, it is possible that the invention disclosed in a patent incorporates unlawfully procured confidential information and know-how from a third party resulting in a possible issue of a future claim by that third party. Additionally, issues of infringement or some IPR may require a subjective or qualitative assessment *eg* the question of whether a copyright work has taken the 'look and feel' of another, or whether a mark is 'confusingly similar' to another.

Uncertainties such as these should always inform the extent to which a party should contextualize and assess IPR warranties. In an M&A where multiple IPR and assets, and potentially multiple businesses are involved, the complexities can multiply.

Conclusion

With the variety of technologies which are developed in today's world, and the growth of the global economy, the likelihood is that an M&A may involve more than one jurisdiction and may include a range of assets with a varied bundle of IPR. This in turn presents a variety of challenges and call for a variety of solutions to presented in any M&A transaction.

It would be a mistake to assume that there is a 'one-size-fits-all' document, or a 'standard' document that would cure all IPR issues or concerns. Invariably, every M&A will require a certain degree of specific tailoring and customization of documents and components.

Nevertheless, no matter how complex or manifold the issues involved, the key, as always, is a systematic and meticulous separation of the IPR issues into their constituent parts and the use of creativity and resourcefulness in integrating the individual solutions into a complete whole.

With proper care, we can perhaps imagine someone in that smoke filled room getting up and opening the window onto an IPR perspective, allowing the haze to clear.

Notes:

1 *See* Guriqbal Singh Jaiya, Director, SMEs Division, World Intellectual Property Organization (WIPO), 'Accounting and Valuation of Intellectual Property (IP) Assets: Importance, Methods and Challenges' *at* http://www.wipo.int/edocs/mdocs/sme/en/wipo_smes_tlv_05/wipo_smes_tlv_05_www_54895.ppt.

2 In 2006, the value attributed to goodwill as an asset in Coca Cola Co's balance sheet was US$1.403 billion.

3 So, for example, an assignment of a registered patent and trade mark or of copyright is not effective if not in writing (*see* section 41(6) Patents Act, and section 194(3) of the Copyright Act respectively.)

4 *See*, for *eg* the rule that an unregistered trade mark cannot be assigned without the goodwill in the business in the mark was used (*Star Industrial Co Ltd v Yap Kwee Kor t/a New Star Industrial Co* [1975-1977] SLR 20; see also the remarks of Chan Sek Keong JC (as he then was) disapproving the treatment of trade mark rights as commodities (*Ng Chye Mong Pte Ltd v PP* [1988] 2 MLJ 150).

5 So, for example, in Singapore, a distinction has been drawn been the assignment of patent rights in an invention from the assignment of rights in an invention, the former not necessarily connoting patent rights and requiring recordal—*see Trek Technology (Singapore) Pte Ltd v FE Global Electronics Pte Ltd & Others (No 2)* [2005] 3 SLR 389; [2005] SGHC 90.

6 The current version of the Singapore Accounting Standards does not prescribe any specific standards applicable to the valuation of IP assets. The valuation of IIPR assets is an area has received attention in recent years, and we can anticipate that in the future, various standards may ultimately be adopted in various jurisdictions. A useful collection of articles on the valuation IPR assets can be found at http://www.wipo.int/sme/en/documents/valuationdocs/index.htm.

7 Unrestricted disclosure of confidential information can result in the loss of legal rights in that confidential information. Interestingly, argument raised in the Singapore context was whether the disposal of rubbish containing confidential information amounted to abandonment of rights in that information was soundly rejected since disposal was without intention to release the information (*Vestwin Trading Pte Ltd & Anor v Obegi Melissa & Others* [2006] 3 SLR 573, [2006] SGHC 107).

8 So, for example, in *The Performing Right Society Ltd & Anor v United Artist Singapore Theatres Pte Ltd* [2001] 2 SLR 375; [2001] SGHC 54, the court noted that though a sound recording of a song as featured in a film may have been merged with the rights in the distribution of the film, the screening of the film would also amount to a performance of the underlying copyright in the musical composition.

9 See sections 27(4), 81(1), 246(1) of the Copyright Act (Cap 63) for definitions of 'qualified person', and Part VIII read with the Copyright (International Protection) Regulation for its extension to persons from Berne Convention territories.

10 Singapore's Patents Act adopted the language on employee inventions from the UK Patents Act 1977 but expressly omitted sections pertaining to compensation for employee inventions. See sections 49 and 50 of Singapore's Patents Act and compare with sections 39 to 43 of the UK Patents Act 1977.

Intellectual Property in the Context of Mergers and Acquisitions: How to Ensure a Successful Outcome in a Brazilian Deal

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This article discusses the weight accorded to, and the optimal means by which to realize the value of, IP assets in a merger or acquisition in Brazil

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Brazil's economic and political stabilization achieved during the 1990s inspired domestic and foreign investor confidence and spurred internal consumption and foreign investment levels. Cross-border mergers and acquisitions ('M&A') transactions involving Brazilian companies have soared ever since, and continue to present interesting challenges and opportunities for different business players.

Following a global economic trend, intangible assets are becoming increasingly valuable to Brazilian companies. As a result, instead of focusing their attention in traditional assets and production lines, many potential buyers in M&A transactions are interested in the benefits presented by intellectual property ('IP') rights of the target company.

Therefore, IP assets such as trademarks, patents, industrial designs, copyrights, know-how, trade-secrets and domain names, are moving to the spotlight of many significant international deals.

The importance of IP assets in the context of M&A transactions will depend on different factors of each particular deal, especially the type of business that is being acquired and how the buyer plans to explore it after the acquisition.

IP assets generally play a very important role in transactions involving the retail sector, especially as far as trademarks are concerned. After all, brand recognition by consumers can be one of the most relevant assets of many retail companies.

IP assets are also decisive factors in transactions involving hi-tech activities or specific manufacturing processes. In such cases, copyrights and/or patents will be extremely important.

The selection of M&A transactions as alternatives to the exercise of activities through a newly created, wholly-owned Brazilian subsidiary is primarily motivated by business factors. From a legal perspective, the decision to acquire an existing Brazilian company should be made only after due diligence investigations and an assessment of the legal risks associated with the relevant business. As discussed throughout this article, IP rights are a major factor in these assessments and determinations.

After a potential buyer makes the determination that IP assets are a relevant factor in the proposed M&A structure, specific investigations must be made with respect to the validity, status and registration of IP rights with the appropriate governmental agencies. Due diligence investigations related to IP assets are mainly based on documents provided by the seller and information available in public records maintained by Brazilian governmental offices.

During the course of due diligence investigations, it is also advisable to assess how piracy affects the market in which the business of the target company is inserted. Two major targets of counterfeiting are the retail industry and manufacturers of electronics. Whenever piracy issues are important in a particular deal, the prospective buyer should properly analyze its consequences and start planning remedial actions.

Industrial property rights in Brazil are currently ruled by Federal Law No 9,279, dated May 14, 1996, in effect since May 15, 1997 (the 'Industrial Property Law'). The Brazilian Patent and Trademark Office ('INPI') is the competent governmental authority for the granting of patents, utility models, industrial designs and trademark registrations. In this context, any and all IP investigations during the course of M&A transactions shall be conducted by Brazilian attorneys that are familiar with local laws and registration systems.

In addition to the comfort provided by due diligence investigations of IP assets, it is always advisable to include contractual protections typically used in M&A deals. These protections begin with the preparation of a schedule which contains a description of all IP assets held by the target company. The seller and/or the target company, as the case may be, are then required to give a representation to the effect that the schedule of IP assets is accurate and complete, that the IP assets do not infringe third party IP rights, and that the seller and/or the target company are the legal owners of such rights and are entitled to sell and assign them.

Whenever a transaction involves a direct transfer of IP assets, as opposed to a transfer of shares, for instance, special attention should be paid to the applicable transfer procedures.

This begins with a clear identification of the IP assets to be acquired, as each type of asset will have different ownership and transfer regulations. For this purpose, IP rights must be separated into different categories according to their type and status, such as trademark application, trademark registration, patent application, granted patent and so on. This analysis will help identify those assets to which ownership titles were already granted, as well as the level of risks and contingencies in the case of pending applications and third parties' interests in the related IP assets.

The seller should be asked to list all trademarks and distinctive signs it holds, and to provide copies of the corresponding registration and renewal of registration certificates.

Another list should be produced with any patents, utility models and industrial designs

Photo: Rafal Zdeb

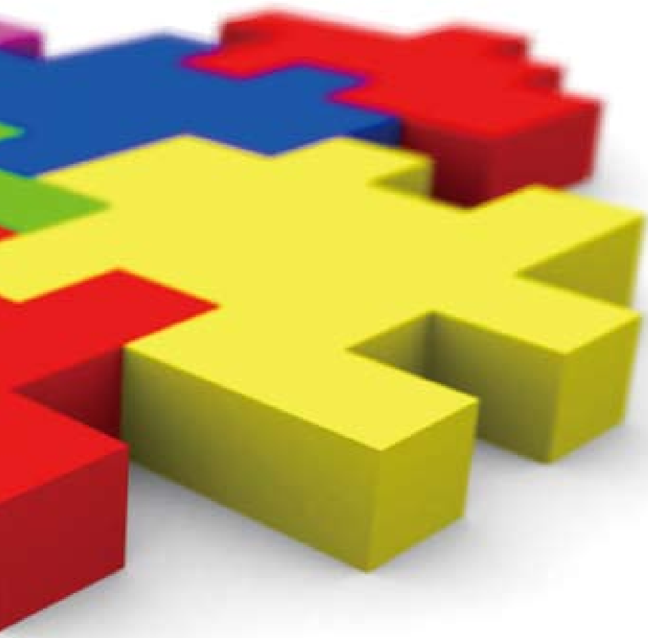
deposited, granted or registered before the INPI in the name of the seller, together with evidence of payment of annual fees for each registered patent, utility model and industrial design.

As far as copyrights, a specific list should contain copyright applications and registrations in the name of the seller company, together with copies of employment or services agreements executed by the company which have as a result the preparation of copyrightable materials.

In connection with information technology and software, the owner must provide a list of software applications used by the company, specifying the name of the application, function, platform, ownership, programming language and number of users. Copies of licenses authorizing the use of computer software installed in the company must be provided to attest that the software is being legally used.

Since domain names are also considered IP assets, the seller must provide a list of all domain names registered in each country in the company's name and inform if there are any dispute involving any company's domain name.

After due diligence investigations are successfully completed, and once the IP assets to be transferred are duly identified and categorized, the parties should focus on the particular procedures required for a valid assignment or transfer of each trademark, patent, industrial design and other IP assets owned by the seller.



The buyer must have in mind that the transfer of IP assets must follow the applicable registration requirements of Brazilian laws. This will ensure adequate protection as to the validity of any IP rights and enforceability against third parties. The proper registration of a trademark, for example, clearly indicates to consumers the trademark origin, and allows its legal owner to take any actions and file any proceedings regarding the trademark, such as oppositions, payments of renewal fees, proof of use and other required procedures.

In Brazil, transfers of trademarks, patents, utility models and industrial designs must be filed before INPI to be valid. The INPI should also be informed about any change in ownership, corporate name or principal place of business. No transfer of such IP rights can be deemed accomplished in Brazil without the appropriate registration by the INPI. Therefore, the mere execution of a transfer agreement between the interested parties is not enough to entail an actual transfer of IP rights.

In addition, license agreements such as licenses of use of trademarks and patents, as well as any industrial property related agreements such as technology transfer and franchise agreements, must be approved by government authorities to be effective against third parties, and to allow certain remittances of royalties outside the country and tax deductibility.

When carrying out its registration duties, the INPI conducts an administrative proceeding that consists of a careful analysis of various legal and formal aspects, including the orientations of the Trade Related Aspects of Intellectual Property Rights (TRIPS) of the Uruguay Round of the General Agreement on Tariffs and Trade, when applicable.

Due to an interpretation adopted by the INPI, know-how or any other unpatented technology may not be licensed, but only transferred, which means that the recipient is allowed to use the technology even after the corresponding agreement is terminated.

The maximum term of a technology transfer agreement must be five years. This period might exceptionally be extended for another five years in case it is proven that the first five-year period was not sufficient for the Brazilian company to completely absorb the technology attached to the corresponding technical services or know-how it has received.

Moreover, it is not uncommon for INPI to reject clauses providing for the return of technological information to the supplier. Brazilian rules also do not accept a perpetual confidentiality term and therefore the secrecy clause must be for a definite term.

The parties to the transaction should expect, as the estimated term for the registration of a technology transfer or similar agreement, approximately 60 days as of the date of the filing of all documents with the INPI.

The INPI is also in charge of analyzing agreements for the licensing of patents of invention, utility models and industrial designs, agreements for the licensing of trademarks and agreements providing for technical, scientific and administrative assistance, *ie*, agreements that establish the conditions for obtaining planning methods and techniques, as well as researches, studies and projects destined to the execution or provision of specialized services.

Several transactions contemplate IP rights that must produce effects in different countries, bringing to the deal a new set of issues to be addressed. For example, some countries may require separate agreements for each IP right being transferred, and different documents might need to be recorded with governmental agencies to reflect the new trademark, patent or copyright owner.

These multi-jurisdictional issues are sometimes contemplated in international registration systems, such as the Patent Cooperation Treaty ('PCT') and the Madrid Protocol, to which a large number of countries have already adhered. In general, they provide for easier and smoother procedures for registration of IP rights in different countries, with savings in terms of time and money. When such an international registration system is in place, parties are advised to contact local counsel in order to take advantage of the benefits offered by each system.

Brazil is part of the PCT agreement, which provides for a simplified process for patent protection in several countries. The PCT process is undoubtedly more efficient and cost-effective when compared to separate registrations in each jurisdiction, as it permits a single international filing in just one country, for further examination and protection of the applicable patent in each country indicated by the applicant in the international filing papers.

Similarly, the Madrid Protocol also provides for a centralized system which results in lower registration costs, less complexity and shorter delays in the registration of trademarks in various countries.

Since 2001, a series of working groups have produced articles and held seminars to discuss the possibility of Brazil joining the Madrid Protocol. But this has not occurred yet, as the issue is currently under analysis by the Brazilian government. The INPI has already expressed its opinion that Brazil should take part in the Madrid Protocol, recognizing that it would benefit holders of IP rights seeking protection in Protocol member states.

The overview provided above indicates that different and important issues related to IP assets may appear during the course of an M&A transaction. As intangible assets become ever more valuable in the global economy, properly addressing these IP issues is a crucial element for a successful deal.

Islamic Finance: Intellectual Property Collateralization

This article discusses recognition of Intellectual Property under Shari'ah law and how it can be collateralized in Malaysia

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This article examines the possibility and methods of providing a security interest in IP for purpose of using as collateral in raising financing. The focus of this article is Patents, Copyright and Trademarks, and the legislation referred to herein that of Malaysia.

What is Intellectual Property ('IP')?

'IP' is a legal term that refers to industrial property and to copyright and the other related rights. Industrial property comprises the protection of copyrights, patents, trademarks, industrial designs and geographical indications. It also includes the protection of utility models, trade dress and layout-designs or topographies of integrated circuits, where such protection exists, including protection against unfair competition and protection of undisclosed information/trade secrets. Realistically, IP is a type of property or asset, just as valuable (or more valuable) than physical or real property. Basically, IP is an intangible asset that is the product of the human intellect in the usage of knowledge.

The law also recognizes rights to any intellectual creation. The creator of IP owns it in a similar way as one who has physical possession of it, where he can exercise control over its use, exploit it and commercialize it to obtain reward from others who use it. One must not confuse between owning IP and owning the physical embodiment of the work. As an example, where one purchases a book, one has the physical possession of the book, but not the IP right to its full contents. In other words, the copyright of the book rests entirely on the author. Photocopying the contents of the book is usually an infringement of copyright.

Generally, while we acknowledge that the author of a copyright work or the inventor of any invention or the creator of a design, are the owners of such intellectual creations, such rights are, however, subject to the terms of agreement between the author, inventor or creator and any third parties. This includes such works that are made in the course of the creator's employment.

The issue of ownership and title is often more complex where more than one person or company creates the IP through a joint effort. In this light, where the IP is used as collateral for raising finance it is all the more important to determine the issue of ownership at the outset.

Relationship between IP and Commerce

IP consists of new ideas, original expressions, distinctive names and appearances that make products unique and valuable. IP is often traded (or 'licensed') in its own right, often by means of patent or other IP licenses, without trading in the value of an underlying product or service. With the Internet technology explosion and its accessibility globally, the market for any product has increased exponentially. Hence, there are several reasons why IP is important to commerce and, likewise, commerce to IP.

Most people often do not realize that the relationship between IP and commerce bears a symbiotic relationship. Although IP is important as it provides the legal recognition of property rights in information, innovation and invention, the actual value of these rights may effectively be realized only if the owners of these rights are able to exploit and commercialize their property. One such method of commercializing IP is by collateralizing such assets in order to raise financing. Collateralizing IP is important as it may enable owners among others to further continue to develop their IP via research and development. However, the notion of collateralization of intangible property assets is not widely embraced by many financial institutions due to the large risks that are associated with it in comparison to tangible property, *eg*, land, equipments and machineries.[1] Among the reasons is the duration of IP ownership, the high rate at which technological IP can deteriorate in value, determining an acceptable method of valuation of the IP, the lack of liquidity in IP and, most importantly, the conflict of purpose and conflict of culture between IP and commercial lending law.

Dissecting IP Laws

If the conventional legal idea of 'property'[2] as developed by Penner is used, a property right can be defined as the exclusive right of dominion over a resource, being a right which can be transferred in the market.

IP rights should be accorded similarly as real property rights. To limit and restrict the lifespan of IP rights may hinder the growth of business in the Information Age and the expansion of related commercial transactions.

Various property rights are established and codified under Malaysian IP legislation (*ie* the Patent, Copyright and Trademark Acts). Most of these statutes grant the exclusive rights for, among others, exploitation in the case of patents or a right to reproduce in the case of copyrights.

The next step would be to determine the nature of ownership in specific IP and possible method of collateralizing such a property.

Copyrights: Security Interests

Section 26(1) of the Copyright Act (1987) provides that copyright shall vest initially in the author as the first owner. The ownership of a copyright may reside in one person or in more than one person as co-owners. Co-ownership may arise either because joint authors produced the work or because an interest in the copyright has been assigned to more than one person. The commonly held position is that co-owners hold copyright in the work as tenants-in-common entitled to equal shares. Generally, as holders of separate and distinct interests in equal shares, tenants-in-common are entitled to enjoy the property and to sue for any infringement thereof independent of the other. However, in so far as copyright works are concerned, this rule would appear to be slightly modified. The co-owner of a copyright is not entitled to do any of the restricted acts with respect to the work without the consent of the other.

The nature of co-ownership under our law may be gleaned from s 27(4) of the Copyright Act. This subsection provides that an assignment or license granted by one copyright owner shall have effect as if the assignment or license is also granted by his co-owner or co-owners, and in the absence of any agreement to the contrary, any fees received shall be divided equally between them. Co-owner, for the purpose of that subsection, refers to any authorship or an assignment of any joint interest. Section 27(4) appears to suggest that co-owners hold as tenants-in-common rather than as joint tenants. It is, however, not entirely clear whether a co-owner can sue without joining the rest of the co-owners. On the basis that words and expressions in the singular include the plural, and save as provided for under s 27(4) of the Copyright Act, all references to 'copyright owner' must also include co-owners with the result that a co-owner may have no right to sue independently of the others under Malaysian copyright law.

Copyright is considered as personal property and movable and can be transferred by assignment, testamentary disposition (will), or by operation of law: *see* Copyright Act s 27.

The owner of the copyright may deal with or transmit some or all the rights under copyright for the whole or part of the period of copyright in a specified country or geographical area. The owner of the copyright in a musical work may license the performing right to one person and the broadcasting right to another. Copyright can thus be split into various parts among various persons in various parts of the world for various periods of time.

The absence of a copyright registry in Malaysia makes it a problem to determine ownership rights. This is especially so in the case of joint-owners or in a complex relationship or for works created during the course of the author's employment: *see* Copyright Act s 26(2). The element of 'constructive notice' is necessary in structuring a funding when copyrights are pledged as collateral. The doctrine of constructive notice is a recognized practice by commercial lawyers where the doctrine imputes knowledge to a party who could have or ought to have made certain enquiries regarding the information that would have been apparent had the enquiries been done. The party is then subject to whatever interests are disclosed by such 'proper and usual' inquiries.[3]

However, the absence of a copyright registry creates pervasive problems in this area. There are many uncertainties in using copyright as collateral for financing that can result in qualified legal opinions to commercial lenders and bankers. Because there is no copyright registry, bankers may have to take precautionary measures as listed below when processing loan applications and assessing the security interest of copyright owners:[4]

All bankers should:

a. Conduct due diligence investigations regarding the creation of the copyrighted work;
b. Review all authors' employment agreements in the course of apprenticeship or other related agreements involved in the creation of the works;
c. Review all licenses granted relating to the work;
d. Obtain appropriate warranties from the security provider;
e. Conduct an official search with the Companies Commission of Malaysia[5] to determine the existence of company charges and encumbrances, if it involves a registered company as security provider/borrower, or if the security provider is an individual to conduct a bankruptcy search at the Insolvency Office to determine his current status; and
f. Obtain a copy of the work: for software,[6] require the security provider to place commented source code in escrow and update the source code on a regular basis and obtain the names and addresses of key programmers.

Patent: Security Interests

There is a Patent Registry in Malaysia. The duration of a patent is twenty (20) years, that takes effect from the date of filing the patent application. It can be argued that the date of the patent takes effect only from the date of registration when the certificate of patent is issued and not from the date of filing (Patents Act 1983). Whether security interests arise from the filing date or on the date of issuance is unclear in the Patents Act. One can argue that a security interest in a pending

patent may arise once the filing is satisfied and the security interest is attached to the patent after the certificate of grant is issued. But, if the date on the grant of patent shows that the security interest is created on the date the grant is issued, it is arguable to say that it is the date the security interest is created and not earlier. At the end of the day, it is best to look at the date of registration on dealings of the patent from the certificate issued to know the date in which the security interest starts. Although the certificate of registration for a patent is not a document of title, it gives the rights in the patent to the possessor. For a lawyer representing the bank, it is professionally prudent to advise releases of the loan based on the date shown on the certificate of registration in the patent. Loans released before the creation of security interest in favour of the bank may expose the advisor to a negligence suit for advising release without collateral.

In order to create a valid and enforceable assignment of patent application, it must be in writing and comply with the requirements of s 39 of the Patents Act 1983 and s 4(3) of the Civil Law Act, 1956.[7] Legal title passes to the assignee on grant of the patent only after the prescribed fee has been paid to the Registrar and recorded with the Registry. (*See* Patents Act 1983 s 39(3) & (4))

Here, two issues come to the fore:

a. Requirement for registration of charges under s 108 of the Malaysian Companies Act[8] for a company or corporation; and
b. Charge/assignment of patent. *See* s 39 of the Patents Act.

For example: let's say **A**, a limited liability company, obtains a loan from **B**, a bank, by charging the patent as security for the loan. Assuming a security interest in the patent is registered under the Companies Act, but not with the Patent Registry, does the subsequent purchaser who obtains the patent from **A** after conducting the search at the Patent Registry but not the Registrar of Companies, have priority in interest on the patent?

The requirements for registration of charges under s 108 above are to notify to the world at large on the dealings of the company. Failing to file the charge by the bank, within 30 days from the date of creation of the charge by the company would render the charge to be void against the liquidator and rank the bank as an unsecured creditor.

A prudent purchaser relying on the constructive notice doctrine would be required to conduct searches both at the Patent Registry and the Companies Registry, to find out the authenticity of the patent and dealings of the company as the patent owner is a limited liability company. The decision in the United States California district court case of *National Peregrine, Inc v Capitol Federal Savings & Loan Association (In re Peregrine Entertainment Ltd)*[9] signifies the importance of a recordation scheme that best serves its purpose where parties can obtain all encumbrances by referring to a single, precisely defined recordation system. In that case the copyright law of the United States ensured 'predictability and certainty of copyright ownership, promoted national uniformity and avoided the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various states'. In the above example, the subsequent purchaser would have no basis in the priority claim over **B** the banker, as the charge was filed with the Registry of Companies, unless he could prove that the patent was void or invalid.

The Companies Act's requirement regarding the filing of charges[10] under s 108 is to notify third party of the dealings and encumbrances of the company and non-compliance with the section would render the charges in regards to any security on the company's property or undertaking (the charges to which this section applies are charge on goodwill, on a patent or licence under a patent, on a trademark, or on a copyright or licence under a copyright) void against a liquidator or any creditor of the company.

The Malaysian Companies Act and Patent Act are Federal Acts that rank *pari passu* and rate equally.

Section 108 of the Companies Act has given legislative recognition to IP interests as security in raising financing on the company's property in the form of patent, trademark, copyright and goodwill.

Trade Marks ('TM'): Security Interests

What are the rights given to the owner of a registered TM? What is the length of protection afforded to a registered TM?

A registered owner would have the right to exploit the TM for his goods and services as long as he does not assign or transmit the TM to others. Section 35 of the Trademarks Act provides that if the registration of the TM is successful, the registration gives the owner (*ie* the person under whose name that TM is registered) the exclusive right to the use of the TM in relation to those goods or services subject to any conditions, amendments, modifications or limitations entered in the Register.

The fact that the owner is registered is *prima facie* evidence of the validity of the original registration of the TM; *see* s 36 of the Trademarks

Act). A TM registration is assignable but the Trademarks Act requires that either the person registered as the owner of the TM or the person to whom the TM has been assigned must apply to the Registrar for the assignment to be registered in the Register. The Trademarks Act mandates the registration on assignment of the mark and the assignment is effective once it is filed for registration. The term 'assignment' confers the effect of a 'transfer' under the Trademarks Act. The validity of every TM registration shall last for 10 years subject to renewal before the period lapses; *see* s 32 of the Trademarks Act. It is imperative that other competing claimants file their registration before date of expiration to prevent future challenges.

IP under Shari'ah law

The term 'Shari'ah' refers to Islamic jurisprudence and the discussion on the recognition of IP will not be exhaustive without resorting to primary sources in the Qur'an, the Sunnah and the writing of Muslim scholars.[11] IP was first discussed by Muslim scholars in the early forties and it centres upon the concept of '*ilm* (knowledge) in Islam that originates from or owes its origin to the Almighty *Allah* (God).[12] On the premise of this argument, there is opposition to the recognition of IP as IP involves the allocation of property rights to information. As knowledge is the 'common heritage of mankind' and comes from Almighty *Allah*, therefore any form of allocation of property rights to knowledge is a form of restriction on the availability of knowledge.[13]

There are numerous injunctions found in the Qur'an on the concealment of *'ilm*[14] either in the form of religious knowledge or concealment of action.[15] One of the *hadiths* of Prophet Muhmmad (p.b.u.h)[16] that supported against the concealment of *'ilm* that was narrated by Abu Musa.[17]

That said, the term *'ilm* can be said to apply to all Islamic knowledge and other sciences, a viewpoint reinforced by the writings of Abdullah ibn Mas'ud.[18]

Based on the above premise then, the term *'ilm* should be given a wider interpretation and therefore the recognition of the concept of IP does not contravene the concept of *'ilm* in Islam. It may be argued that the recognition of IP may involve the monopoly of information but in some instances it can be properly regulated to avert the monopoly.[19]

There are divergent views over the recognition of IP under Shari'ah by various Islamic scholars, but in accordance to Shafie (a scholar belonging to one of the most orthodox Islamic schools of thought) transactions involving IP can be approved on the basis of *maslahah mursalah* (overriding public interest). Emphasizing the positive social and economic benefits of IP and the contribution of authors and inventors to the furtherance of education, science and technology, Shafie stressed that IP should not only be recognized but encouraged.[20]

Another strong supporting justification of IP under Shari'ah is that it requires acquisition of ownership rights through the use of *'amal* (labor). The use of *'amal* for the accumulation of wealth is encouraged in Islam and is well supported in the Qu'ran and Sunnah.[21] Besides *'amal*, IP should also contain the element of *manfa'ah* with the effect of enjoyment and benefits to the owner of IP.[22]

The primary basis for the recognition of IP under Shari'ah is that it should be Shari'ah compliant in all aspects. In Islam, for example, the human body cannot be patented and inventions which involve the processes for modifying the genetic identity of the human body are contrary to the dignity of man and is against Islam.[23] Some Islamic countries regulate the inventions that are contrary to Islamic principles expressly by enacting legislation to that effect and this is clearly shown under the Saudi Arabian Patent Law.[24]

Ownership in Islam is the permission of the Almighty *Allah* to benefit from an asset. Private ownership is determined by Shari'ah rule; this ascribes an asset or a benefit to an individual, thus enabling him to benefit from the asset itself. Islam recognizes the individual rights to ownership of property or asset that is allowed by Shari'ah such as house, land, food *etc*. But Islam forbids assets such as alcohol, pork and harmful drugs. The proper use of *'ilm* (knowledge) is encouraged in Islam and one is permitted to receive payment for teaching from the use of knowledge. The ownership of asset or property is permitted through selling, hiring and inheritance but Islam forbade if it is obtained through usury, gambling and sale by speculation. Private ownership in Islam cannot be asserted as valid unless it is strictly in accordance to Shari'ah principles.

Security Interests of IP under Shari'ah

Security interests of IP under Shari'ah are basically governed by four basic fundamental principles to be valid and enforceable:

a. It must be strictly in accordance to the Qur'an, Sunnah *(hadiths)* and the work of Islamic scholars;
b. IP as security collateral cannot be in the form or related to alcohol, pork or drugs that are harmful to mankind;
c. Usury, gambling and sale by speculation are

not permitted; and

d. The IP cannot encompass any act or thing that is onerous and harmful to mankind.

There are several Islamic financial institutions that have introduced financial instruments that satisfy the above requirements and the most common Islamic concepts used in Islamic financing are *Mudharabah* (trust financing), *Musyarakah* (partnership financing), *Murabahah* (cost-plus financing) and *Ijarah* (leasing).

An ideal model for the collateralization of IP is *Mudharabah* where an arrangement or agreement between a capital provider and an entrepreneur (*mudarib*) is made whereby the entrepreneur can mobilize funds for the business activities. Any profit made will be shared between the two according to an agreed ratio while losses are solely borne by the capital provider. *Musyarakah*, a concept normally applied for business partnerships or joint-ventures, is also applicable to IP collateralization. In this case the management of the project can be pre-agreed by all parties and profits are shared on a pre-agreed ratio but losses are divided based on equity participation.

In *Murabahah*, that involves the purchase of goods by the bank at the request of the customer. The goods are then sold to the customer at a price which includes a profit margin agreed to by both parties. The customer usually makes repayments in instalments.

In *Ijarah*, a leasing arrangement is undertaken for example in a equipment financing facility. The bank will buy and lease out the equipment at an agreed rental over a specified period.

Another concept known as *Ijarah wa-iqtina* or lease/hire purchase would involve the commitment of the customer to purchase the equipment at the end of the leasing period at an agreed price and the rental paid during the leasing period would constitute part of the price.

Conclusion

Malaysia is a leading international Islamic financial hub where many foreign Islamic banks are currently operating and funding in Ringgit and non-Ringgit currency is permitted. To spearhead the growth of Islamic financing globally and to accelerate the role of Malaysia as an international Islamic financial hub, more Islamic banks operating in Malaysia should explore accepting IP as collateral for funding domestically and globally.

Notes:

1 Basle Committee Report II March 2003.

2 Penner, *The Idea of Property Law,* 1997.

3 Knopf, Howard, *Security Interests in Intellectual Property: An International Comparative Approach.* *See* http://www.lcc.gc.ca

4 Swinson, John, 'Security Interests in Intellectual Property' in *Securities over Personal Property* (Wappet and Allan, Butterworths, 1999), p 147. For security issues relating to software, *see* Pollard, 'Aspects of Lenders' Security over Computer Software Copyright' (1995) 6 *AIPJ* 80.

5 Companies Corporation of Malaysia (CCM) is a government corporation that is responsible to keep record and administer records of companies empowered under the Companies Act of Malaysia, 1965.

6 Swinson, John, 'Security Interests in Intellectual Property' in *Securities over Personal Property* (Wappet and Allan, Butterworths, 1999), p 147. For security issues relating to software, *see* Pollard, 'Aspects of Lenders' Security over Computer Software Copyright' (1995) 6 *AIPJ* 80.

7 Section 4 (3) Civil Law Act, 1956 states that any absolute assignment by writing, under the hand of the assignor, not purporting to be by way of charge only, of any debt or other legal chose in action, of which express notice in writing has been given to the debtor, trustee or other person from whom the assignor would have been entitled to receive or claim the debt or chose in action, shall be and be deemed to have been effectual in law, subject to all equities which would have been entitled to priority over the right of the assignee under the law as it existed to priority over the right of the assignee under the laws it existed in the State before the date of the coming into force of this Act, to pass and transfer the legal right to the debt or chose in action from the date of the notice and all legal and other remedies for the same and the power to give a good discharge for the same without the concurrence of the assignor.

8 Malaysia Companies Act, s 108 states that (1) subject to...where a charge to which this section applies is created by a company, there shall be lodged with the Registrar for registration within thirty days after the creation of the charge a statement of the prescribed particulars, and if this section is not complied with in relation to the charge, the charge shall, so far as any security on the company's property or undertaking is thereby conferred, be void against the liquidator and any creditor of the company. (2) Nothing in subsection (1) shall prejudice any contract to obligation for repayment of the money secured by a charge and when a charge becomes void under this section the money secured thereby shall immediately become payable. (3) The charges to which this section applies are:—...(j) charge on goodwill, on a patent or licence under a patent, on a trademark, or on a copyright or a licence under a copyright.

9 116 BR 94 (C D Cal 1990).

10 In some other jurisdictions, the term used is 'mortgage' that is similar to 'charge' in Malaysia.

11 *Supra note*.

12 Azmi Ida Madieha Abdul Ghani, 'Basis for the Recognition of Intellectual Property in Light of the Shari'ah,' *International Review of Industrial Property and Copyright Law,* No 5/1996.

13 *Ibid*.

14 *Ibid, the word 'ilm comes from the rootward 'a-li-ma. In the Qur'an the word al-'ilm is used to denote al-yakin in the sense of religious truth or religious knowledge; see* EW Lane, 'Arabic-English Lexicon' *(8 vols In 2 Islamic Text Society Cambridge 1984). This word and its derivatives occurred 105 times in the Qur'an. It has many connotations; science, knowledge, learning, lore and information. In its broad meaning, Muslim scholars often use the word to denote both religious knowledge and other sciences.*

15 *Ibid see* Q2:42, Q2:140, Q2:174, Q3:71, Q4:42, Q5:99 and Q5:106.

16 Salutation of abbreviation of the Prophet p.b.u.h. means "peace be upon him" must be stated when addressing the Prophet.

17 Sahih Bukhari, Vol 1, Book 3, No 79 narrated by Abu Musa. *The Prophet said, 'The example of guidance and knowledge with which Allah has sent me is like abundant rain falling on the earth, some of which was fertile soil that absorbed rain water and brought forth vegetation and grass in abundance. (And) another portion of it was hard and held the rainwater and Allah benefited the people with it and they utilized it for drinking, making their animals drink from it and for irrigation of the land for cultivation. (And) a portion of it was barren which could neither hold the water nor bring forth vegetation (then that land gave no benefits). The first is the example of the person who comprehends Allah's religion and gets benefit (from the knowledge) which Allah has revealed through me (the Prophets learn and then teach others. The last example is that of a person who does not care for it and does not take Allah's guidance revealed through me (He is like that barren land.)'*

18 Sahih Bukhari (English translation by Hilal Yakin Lari), Vol II, Book III at 59. *The Prophet (p.b.u.h) said to the effect: "do not wish to be like anyone in two cases: (the first is) the person whom Allah has given wealth and he spends it righteously; (the second is) the one whom Allah has given wisdom (the Holy Qur'an) and he acts according to it and teaches it to others."*

19 *Supra note 36.*

20 *Ibid. A detail discussion on the recognition of intellectual property under Shari'ah is made by Ida Madieha Abdul Ghani Azmi (Supra note 36). See Mustafa Ahmad Al-Zarqa," Al-Fiqh al-Islami fi Thaubihi al-Jadid, al-Madkhal ila Nazariyyat al-Iltizam al-"Ammah fi al-Fiq al-Islam", Vol 3 (Matba'ah Jami'ah,Damascus 1949). Al-Zarqa is not the only contemporary Muslim scholar who has relied on the doctrine of maslahah mursalah to justify rights over intellectual property in order to evade the strictness of the Hanafi school of thought among others are ALI- AL-KHAFIF," Al-Milkiyyah fi al-Shari'ah al-Islamiyyah ma'a al-Muqaranah bi al-Shara'I al-Wad'iyyah" (Ma'had al-Buhuth wa al-Dirasat al-Arabiyyah,Cairo 1960).*

21 *Ibid. See Q2:267, Q2:134, Q6:132, Q17:19, Q20:15, Q46:19, Q53:39, Q53:40, Q76:22, Q79:35 and Q92:4.*

22 *Ibid, see* p 662.

23 *Ibid*.

24 Saudi Arabian Patent Law. A patent shall not be granted if the invention itself or its use is contrary to the Islamic Shari'ah; any patent to the contrary shall be abrogated. Save those patents, which are contrary to Islamic Shari'ah, the granting of a patent to an interested party may not be withheld according to this Law.

Bankruptcy and Intellectual Property

A discussion of the potential issues that arise during bankruptcy proceedings and how best to protect intellectual property assets during such proceedings

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Enough emphasis cannot be laid on the importance of Intellectual Property ('IP') assets to the global economy today. It is also a cold truth that business ideas fail, enterprises/companies fail, leading to insolvency proceedings, and concerns then arise on how IP assets are dealt with in such proceedings. In this article an attempt is made to discuss the potential issues that could be faced and to suggest modes in which parties could protect their interest in IP assets, should the owner or user of the asset become insolvent. Since in the present commercial environment, valuable IP assets are usually held or used by companies, this article is restricted to the possible eventualities when a company becomes insolvent.

Different approaches to management of assets by intellectual property laws and the bankruptcy system contribute to the treatment of IP assets pre and post insolvency. Any intellectual property regime encourages investment of time, effort and money, in the creation of IP assets and confers exclusive rights on use of such IP to facilitate economic returns on investment. Licensing IP is an important means of deriving value while licensing in is resorted to achieve capabilities at the outset to enter into a new market. Indian IP laws permit licensing and barring certain limitations, parties enjoy the freedom of contract to determine the terms and conditions of such licenses. Further, recognizing the value of IP assets, there is also a trend towards creation of security interests in such assets.

On the other hand, under the bankruptcy system, the predominant objective is disposal of assets for the benefit of creditors of the debtor company. The Indian Companies Act, 1956 ('Companies Act') which governs insolvency or bankruptcy of a company in India affords a liquidator some leeway to disclaim existing contracts and reorder the affairs of the insolvent company during winding up. Another area where rights of parties could be affected is in the case of security interests on IP assets, licenses or receivables.

In estimating what is the effect on IP licenses in the bankruptcy systems in India, the issue could be viewed from two perspectives namely, where a licensor company fails on one hand and on the other, when a licensee company fails.

On insolvency, a debtor company normally has three possible options in respect of ongoing contracts, namely,

a. adoption of the contract;
b. disclaimer of the contract;
c. assignment of the contract.

From the perspective of a licensor company going insolvent, the immediate objective will be to secure the IP assets to greater value through sale and/or licensing and an existing license may impede sale/licensing or make the asset not readily saleable. Ongoing obligations of the licensor under the license agreement could also make the same onerous to continue with. On the other hand, from the perspective of a licensee company's insolvency, the objective would be to either reject a continuing contract due to its onerous nature (in respect of outstanding or royalty payments *etc*) or to assign the contract in order to secure some value.

Specifically, Section 535 of the Companies Act grants a liquidator the power to disclaim onerous property. The object being, to save an insolvent company's assets from further losses and enable the liquidator divest any onerous property by disclaiming it. Unprofitable contracts have been expressly covered under the expression 'property' for the purposes of this Section. This provision allows the liquidator to disclaim contracts with the leave of the Tribunal (within twelve months from the commencement of the winding up or such extended period as allowed by the Tribunal). Such disclaimer is not to affect rights or liabilities of any other person except as far are necessary for the purposes of releasing the company and the property of the company from liability. Further, the Tribunal may require serving of notices to all persons interested and *impose such terms as a condition of granting leave to disclaim, and make such other order in the matter as it deems fit*. Where an application is made by any person interested requiring liquidator to decide whether he will disclaim a contract and he does not disclaim the contract within 28 days or such extended period which may be allowed from the receipt of the said applications, he shall be deemed to have adopted the same.

Disclaimer of an IP contract by the licensor affects the rights (and liabilities) of the licensee to the extent required to release the debtor licensor and its IP asset. While in some cases this might mean the extinguishment of the license grant itself (for *eg*, an exclusive license which is of such a nature as to negatively affect the saleability of the IP asset) in other cases the licensee may expect to retain the license subject to payment obligations but lose his right to improvements, maintenance, support services, indemnities, defense/prosecution of infringement actions *etc*. In the latter case the licensee may be left to take a decision on rescinding the contract or carry on with the limited license. As there is no judicial interpretation on this point a licensee is advised to make submissions before the Tribunal so as to ensure that the license contract is disclaimed only to the extent necessary under law.

If the liquidator of an insolvent IP licensor disclaims the license, the licensee may object before the Tribunal or accept such disclaimer. The licensee may also (before or after the disclaimer) ask that the license is rescinded, in which case he may have a claim for damages against the licensor which can be proved as an ordinary debt in winding up. The Tribunal is empowered to uphold the license to the extent that it does not cast any onerous obligation on the licensor and ensure payment of royalty, fee, *etc* by the licensee, in accordance with the license, thus advancing the objective of bankruptcy proceedings as well. It however has to be borne in mind that the power to grant such a relief to the licensee is solely at the discretion of the Tribunal and an Indian court is yet to lay down any guidelines in this respect.

There is no gainsaying the uncertainties in law and an IP licensee's cause would be helped by legislative amendments providing that if liquidator decides to reject an IP license even then the licensee can opt to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right to specific performance of such contract) to use such IP for the duration of the license and any extensions available to the licensee as of right, thus protecting the licensee. In lieu of such rights the licensee may be required to make all royalty payments and waive any right of setoff/claims arising from the performance of such license.

Licensees are advised to protect themselves against a disclaimer of ongoing obligations by licensor through contractual provisions such as licensor placing essential materials (for *eg* source code) in escrow for release to the licensee upon the occurrence of a specified event (*eg* bankruptcy, winding up, failure of the licensor to perform its obligations under the license *etc*). Another safeguard is to permit the licensee to provide licensed IP to third parties subject to non-disclosure/exclusivity provisions in the event that the licensor fails to perform its maintenance, support and development services.

Insolvency of an IP licensee poses its own problems. Under the current law a licensor can ask the liquidator to indicate if he intends to disclaim the IP license (and not wait for the period of twelve months or possibly more that law

Photo: Diane Diederich

affords the liquidator to take this decision of his own accord) or ask the Tribunal to rescind the IP license. However, the law ignores a practical aspect impacting the licensor's decision making process namely, the possibility of requiring that the licensee or assignee of the licensee will cure defaults and guarantee future performance in case it opts to adopt the license. A licensor's interests may be better protected if, the law were to expressly provide that incase the IP license is adopted the licensee/assignee of licensee would be liable to cure, or provide adequate assurance that it will cure defaults and provide adequate assurance of future performance and compensation, for any actual loss due to its default, to the other party. Absent such a provision a licensor of IP license may have no option but to seek rescinding of the license for mere adoption of the contract by the licensee may not allay the licensor's concerns on future performance. It is also noted here that IP licenses being personal in nature are regarded in our law as being non-assignable without the consent of the licensor. Further IP licenses usually have a clause prohibiting assignment of the license by the licensee and this might have an impact on the saleability of the license. If the law were to protect the licensor as suggested earlier it is more likely that a licensor will consent to assignment of the license provided that assignee can adequately assure future performance. Absent such changes in law a licensor is advised to state that the license is personal in nature and prohibit assignment thereof without his prior consent. Where assignment is permitted, clauses should set out parameters to be met by a future assignee (such as assurances of future performance, net-worth *etc*.) with a prohibition on assignment to competitors of licensor. Insertion of termination clauses triggered by change of control would also protect a licensor's IP falling into the hands of a competitor as a result of reorganization of an insolvent licensee.

The present insolvency law in India does not expressly provide for invalidation of ipso facto termination clauses in contracts *ie* invalidation of clauses which provide for termination of the contract due to the fact of filing of insolvency petition or winding up itself. Termination of an IP license prior to the process of winding up commencing, may be valid, unless it is done six months prior to the petition of winding up or passing of a resolution for winding up, in which case, the validity of the termination will depend on whether it is perceived as a fraudulent preference. But, there may be a question mark on the enforceability of a clause permitting termination after a winding up petition has been filed. The provision stipulating that post filing of a winding up petition, a party has to apply to the Tribunal for rescinding a contract coupled with the provision voiding any 'disposition of property' lends itself to the interpretation that the intent of the law is to permit termination of a contract only with the leave of the Tribunal. However, the matter is not free from doubt and the present law to reflect the true intention of the insolvency laws may consider invalidating such provisions of an IP license provided it also safeguards the interests of the non-debtor party in the manner discussed above.

It is important that holders of security interests in IP assets, licenses and receivables under licenses perfect their title by recording the security interest in accordance with law to avoid adverse consequences during bankruptcy proceedings. Under the Companies Act security interests created on IP assets etc. unless they are registered. (*eg*, goodwill, patent, patent license, trade mark, copyright or a copyright license) or receivables under IP contracts (*eg* royalty payments or moveable property) are void against the liquidator unless the company has filed the particulars of the charge and the instrument evidencing the charge for registration with the Registrar of companies. Apart from the Companies Act, certain IP legislations also lay down registration requirements for security interests and a failure to comply with such requirements could result in an imperfect title to the security interest. Holders of security interests in IP assets etc are advised to review all relevant laws and follow registration requirements noting that they may have to comply not only with the requirements of the Companies Act but also the relevant IP statutes.

Before concluding here is a note of caution. The Sick Industrial Companies (Special Provisions) Act, 1985 ('SICA') is a special enactment that applies to the industries included in the Schedule to the Industries (Development and Regulation) Act, 1951 and the Board for Industrial and Financial Reconstruction ('BIFR') is a body constituted under this Act to look into and organize the affairs of a 'sick' industrial company. As SICA is a special enactment it overrides the provisions of the Companies Act parties are advised to also review SICA in the event that they enter into license arrangements with an industrial company and/or hold security interests over the IP assets of an industrial company.

To conclude, under the current laws questions may arise on the ambit of protection that law will extend to a party to an IP license when the other party becomes insolvent and it is advisable that parties insert provisions in the IP license to safeguard their interests. Holders of security interests are also advised to take all measures to record their security interest to ensure their position as a secured creditor. Certainty in the law through legislative changes safeguarding interests of parties in IP assets is also expedient in light of the increasing volume of IP transactions in India.

An Invitation to Join the Inter-Pacific Bar Association

The IPBA is an international association of business and commercial lawyers who reside or have an interest in the Asian and Pacific region. The IPBA has its roots in the region, having been established in April 1991 at an organizing conference in Tokyo that was attended by more than 500 lawyers from throughout Asia and the Pacific. It is now the pre-eminent organization in the region for business and commercial lawyers, with over 1,600 members from 70 jurisdictions.

The growth of the IPBA has been spurred by the tremendous growth of the Asian economies. As companies throughout the region become part of the global economy, they require additional assistance from lawyers in their home country and from lawyers throughout the region. One goal of the IPBA is to help lawyers stay abreast of developments that affect their clients. Another is to provide an opportunity for business and commercial lawyers throughout the region to network with other lawyers of similar interests and fields of practice.

Supported by major bar associations, law societies and other organizations throughout Asia and the Pacific, the IPBA plays a significant role in fostering ties among members of the legal profession with an interest in the region.

IPBA Activities

The breadth of the IPBA's activities is demonstrated by the number of specialist committees overleaf. All of these committees are active and have not only the chairs named, but a significant number of vice-chairs to assist in the planning and implementation of the various committee activities. The highlight of the year for the IPBA is its annual multi-topic four-day conference, usually held in the first week of May each year. Previous annual conference have been held in Tokyo (twice), Sydney (twice), Taipei, Singapore, San Francisco, Manila, Kuala Lumpur, Auckland, Bangkok, Vancouver, Hong Kong, New Delhi, Seoul and Bali, attracting as many as 700 lawyers plus accompanying guests.

The IPBA has organized regional conferences and seminars on subjects such as Practical Aspects of Intellectual Property Protection in Asia (in five cities in Europe and North America respectively) and Asian Infrastructure Development and Finance (in Singapore). The IPBA has also co-operated with other legal organizations in presenting conferences — for example on Trading in Securities on the Internet, held jointly with the Capital Market Forum.

The IPBA also publishes a membership directory and a quarterly *IPBA Journal*.

Membership

Membership in the Association is open to all qualified lawyers who are in good standing and who live in, or who are interested in, the Asia-Pacific region.

• Standard Membership	US$195 / ¥23,000
• Three-Year Term Membership	US$535 / ¥63,000
• Lawyers in developing countries with low income levels	US$ 100 / ¥11,800
• Young Lawyers (under 30 years old)	US$ 50 / ¥6,000

Annual dues will cover the period of one year starting from January 1 and ending on December 31. Those who join the Association before August 31 will be registered as a member for the current year. Those who join the Association after September 1 will be registered as a member for the rest of the current year and for the following year.

Qualified lawyers who attend the IPBA Annual Meeting and Conference and pay the non-member conference fee will be automatically registered as a member for the then current year ending on December 31.

Membership renewals will be accepted until July 31.

Selection of membership category is entirely up to each individual. If the membership category is not specified in the registration form, standard annual dues will be charged by the Secretariat.

Further, in order to encourage young lawyers to join the IPBA, a Young Lawyers Membership category (age under 30 years old) with special membership dues has been established.

IPBA has established a new Three-Year Term Membership category which will come into effect from the 2001 membership year.

There will be no refund of dues for cancellation of all membership categories during the effective term, nor will other persons be allowed to take over the membership for the remaining period.

Corporate Associate

Any corporation may become a Corporate Associate of the Association by submitting an application form accompanied by payment of the annual subscription of (¥50,000/US$500) for the then current year.

The name of the Corporate Associate shall be listed in the membership directory.

A Corporate Associate may designate one employee ('Associate Member'), who may take part in any Annual Conference, committee or other programs with the same rights and privileges as a Member, except that the Associate Member has no voting rights at Annual or Special Meetings, and may not assume the position of Council Member or Chairperson of a Committee.

A Corporate Associate may have any number of its employees attend any activities of the Association at the member rates.

• Annual Dues for Corporate Associates	US$500 / ¥50,000

Payment of Dues

Payment of dues can be made either in US dollars or Japanese yen. However, the following restrictions shall apply to payments in each currency. Your co-operation is appreciated in meeting the following conditions.

1. A US dollar cheque should be payable at a US bank located in the US. US dollar cheques payable in Japan may be returned to sender depending on charges.
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See overleaf for membership registration form

INTER-PACIFIC BAR ASSOCIATION

IPBA SECRETARIAT

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