



Intellectual Property | Profit or Poison: The role of an advisor in building income and balance sheets

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1. Introduction | What is Intellectual Property

Intellectual Property (IP) is proprietary and of your mind, involving new ideas including inventions, know how and the application of your ideas for the improvement of humankind.

We think it is pretty cool stuff, and very special.

The problem is that IP is hard to grasp. It can be a little nebulous - difficult to define, or pin down. This means that unless your clients take the right steps, at the right time, and with a precise enough understanding about what they're doing, they can throw away their rights without even realising it.

Advisors play a critical role in assisting their clients to learn about IP within their world. Clients coming to you for guidance (accounting, insurance, finance, HR, future planning, etc) often mention things during their discussions with you.

An Advisor who maintains vigilance and is acutely aware of what to keep an ear out for can play a critical role in identifying any client IP. Knowing when to act, and how to get an IP practitioner involved in protecting the clients' position, can be the difference between losing or securing IP rights.

1.1 Categories of IP¹

The following are categories of IP in Australia:

(a) Trade Marks

- a sign used, or intended to be used, to distinguish goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person².
- Gives an owner an exclusive right to use to the exclusion of other traders within those selected classes of goods (34 classes) or services (11 classes).
- Can be words, logos, symbols, colours, slogans, sounds, smells and three-dimensional representations.
- Can be renewed every 10 years forever so long as the mark is being used.

(b) Patents

- an invention which involves a manner of manufacture which is novel and involves an inventive step that is useful³.
- Allows an owner a monopoly over the exploitation of an invention, process or product for the life of the patent.
- Registered Patent Attorneys are a must with 98% of self-filed applications failing to obtain registration.
- Costs can be significant.

¹ see CGLaw IP Reference Guide **attached**

² s 17 *Trade Marks Act 1995* (Cth)

³ s 18 *Patents Act 1990* (Cth)

- Patents last from eight - 25 years depending on the type of patent and maintenance fees.

(c) **Designs**

- an exclusive right in relation to a product (or component part) where the overall appearance of the manufactured or hand made product contains one or more unique visual feature⁴.
- Grants the owner an exclusive right over the visual appearance, not function, of a product.
- Designs can be two or three dimensional.
- Designs last five years and can be renewed for another five years.

(d) **Plant Breeder Rights (PBRs) -**

- a right in a plant variety contained within a single botanical taxon which can be defined by genotype and functionally utilized via propagation without change⁵.

(e) **Copyright**

- an exclusive right in relation to a literary, artistic, dramatic or musical work⁶.

(f) **Circuit Layouts -**

- original layout designs for integrated circuits, semi-conductors and computer chips⁷.

(g) **Confidential Information / Trade Secrets -**

- proprietary information which could be valuable for competitors may amount to confidential information or even be classed as a trade secret (eg. the formula for Coca-Cola which has been kept a secret for over 50 years).

1.2 Registration

Not all IP is registrable in Australia. Registrable IP in Australia includes:

(a) **Trade Marks**

- whilst clients can obtain some rights in their mark under the common law, those rights are limited to where they can prove their mark has developed a reputation. You might have seen 'TM' after a mark, denoting where a trader claims only a common law right in their mark, in contrast to the ® symbol.

(b) **Patents**

- if a client does not register their patent and they don't keep it a secret, their competitors can do what they like with the invention.

(c) **Designs**

- if a client does not register their design and they don't keep it a secret, their competitors can do what they like with the invention.

⁴ ss 5 & 7 *Designs Act 2003* (Cth)

⁵ s 3 *Plant Breeder's Rights Act 1994* (Cth)

⁶ s 31 *Copyright Act 1968* (Cth)

⁷ s 5 *Circuit Layouts Act 1989* (Cth)

(d) **Plant Breeder Rights**

- if a client does not register their new hybrid variety of a plant breed, their competitors can develop their own identical hybrid variety and compete with the client.

1.3 Where do those rights exist?

- (a) Rights registered in Australia only cover Australia. If you want rights in other jurisdictions you need to register those rights in each jurisdiction where you might want to commercialize your IP.
- (b) International treaties exist between member nations which provide a process by which clients can register their rights in other jurisdictions on the back of their applications for registration within Australia. The World Intellectual Property Organization (WIPO) administers 26 treaties including the Madrid Protocol which deals with trade marks across 90 + member nations, and the Patent Cooperation Treaty which deals with patents across 150 + member nations.
- (c) If your client doesn't register their rights in their marks within each jurisdiction where they want exclusivity it is difficult to prevent others from infringing their IP.
- (d) Even if your client has sufficient rights without registration (through common law marks for example⁸), the costs associated with establishing those rights in other jurisdictions can make the costs of enforcement action prohibitive.

1.4 Who owns those rights?

- (a) Who actually owns IP rights is commonly a vexed question. Employers generally (but not always) own what their employees create during the course of their duties of employment. However, factual disputes can occur in relation to whether or not duties of employment extended as far as to the category of tasks which led the employee to come up with an idea constituting IP. There have been plenty of Court decisions which explore this topic, and it is challenging to predict the likely outcome.
- (b) Contractors generally (but not always) own what they create while delivering services for Principals. Factual disputes can occur here as well, including in relation to whether a contractor was actually an employee.
- (c) Best practice involves Advisors being clear with clients about these risks and ensuring there any ambiguity around the working arrangements are removed so that it is clear who will actually own the IP output.
- (d) Written assignments of IP are essential to make sure the rights end up where they were intended.
- (e) Advisors should contact CGLaw for guidance.

2. Profiting from Intellectual Property

2.1 Identifying IP

- (a) Clients rarely know the IP they own. The intangible and nebulous nature of IP (discussed above) means lots of clients are naïve about the IP they have developed.
- (b) Tangible assets are physical assets with finite monetary values (buildings, plant and equipment, machinery, etc). Historically tangible assets made up more of an organization's balance sheet than intangible assets. Times are changing⁹.

⁸ Common law marks are designated by TM, whereas a registered mark uses ®

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- (c) Best practice involves having an IP practitioner conduct an audit of IP throughout a client organization. An IP Audit involves interviewing critical personnel within an organization, examining information and documentation about processes and systems, and considering how an organization distinguishes itself from its competitors.
 - (d) CGLaw are very experienced in carrying out these audits. We can interview our clients, their executive team and key innovators within their organization to identify and capture any IP which exists, and perhaps more critically, assist to discern which IP holds value and is worth protecting. We work to strategically identify the IP which is most valuable to a client, and develop a plan for its protection and commercialization. We can also assist in shifting the culture of an organization towards increasing the development of IP, managing tensions which commonly exist between research and development personnel and the commercial teams.

2.2 Valuing IP

- (a) At the very least the costs of creating, identifying and registering the IP should be captured so that it forms a basis for valuing the IP.
- (b) Beyond that Advisors (particularly accountants) can play an important role in valuing the IP.
- (c) CGLaw has well forged relationships with specialist IP Valuing Consultants and can facilitate the valuation process seamlessly.
- (d) True recognition of the value of all intangible assets, in accordance with accounting standards, benefits every organization.

2.3 Balance Sheets and IP

- (a) IP must hit the Balance Sheet.
- (b) Any business sale, grant application, capital raising, finance application or organizational restructure benefits from clearly identified and valued IP.
- (c) CGLaw has time and time again seen thousands of dollars being paid for IP in the sale of business setting just because the IP has been properly recognized. In some instances, the value of the IP is many hundreds of thousands of dollars.

2.4 Selling and Licensing IP

- (a) IP rights can be held, sold, transferred, or licensed.
 - (i) Advisors can play an essential role in helping their clients design their commercialization strategy. Sometimes selling the IP early in its exclusive life is worth more than the profits made over time. Other times profits or royalties over time are worth more. It is important to consider the options the IP has available to it and develop the strategy with the unique market for the IP in mind.
 - (ii) The sale of IP must be documented and signed by the parties. A failure to do so is likely to result in the transaction being ineffective¹⁰.
 - (iii) IP rights may be licensed. This is where the owner of IP grants rights to use their IP to others on particular terms. The rights granted may be exclusive, non-exclusive. They may be granted for a defined term, for the life of the IP, or into perpetuity subject to rights of termination. The rights might involve license payments which are annual, based on unit sales of products using the IP, based on profit numbers, or other methodologies.

⁹ see Raconteur, Visual Capitalist 'Valuing Intangibles' Feb 2020

¹⁰ see for example s 196(3) of the *Copyright Act 1968* (Cth) which provides that an assignment of copyright 'does not have effect unless it is in writing signed by or on behalf of the assignor'.

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- (iv) Licensing arrangements must be carefully documented. Any mistakes with these documents can be fatal. For example, with a License Agreement involving the license of a patent it is essential the licensee be an exclusive licensee or they will be unable to take any action against those infringing the patent in Australia¹¹.

3. What are the Costs: the Poison?

3.1 Maintaining Registration

- (a) Costs of registration are only the start. Advisors need to make sure their clients know that any registration of IP rights is only as good as the maintenance of that registration. There are application fees, examination and search fees, acceptance fees and renewal fees. These government fees are all in addition to the fees of Patent Attorneys and legal practitioners advising in non patent areas of IP.
- (b) Any failure to keep up with these fees can lead to losing the exclusive rights of the registration.
- (c) Whilst we can help clients overcome some errors, there is no guarantee and so as a result we strongly advise clients to pay for administrators to maintain registrations.

3.2 Keeping a Watch Service

- (a) Awareness of the requirement to register certain categories of IP is growing. Each year across Australia around 30,000 patent and around 80,000 trade mark applications are filed. That's a lot of applications, with lots of Examiners employed by IP Australia (the Commonwealth Government organization which handles IP rights in the country) processing the applications. Each Examiner makes a decision as to registrability based on their own impression from the facts. Just because your client might expect a competitor's trade mark application to be rejected if it is too close to their own mark doesn't guarantee rejection.
- (b) Unscrupulous individuals and organizations continue to operate, seeking to take advantage of the hard work and success of others.
- (c) As a result, paying for a watching service where the Trade Mark, Designs, PBRs & Patents Registers are monitored for applications which might cut across a client's existing registrations, is increasingly required.
- (d) CGLaw can facilitate that watching service for your clients as required.

3.3 Identifying Infringers & Taking Action

- (a) IP registration requires action to be taken against infringers. If clients don't take action, nothing will happen.
- (b) Action can mean:
- (i) the client contacting the infringer verbally to talk them down from infringement.
 - (ii) the client contacting the infringer in writing to demand they cease infringement.
 - (iii) the client engaging CGLaw to take one of the above steps on the client's behalf.
 - (iv) the client engaging CGLaw to make application to the Court for urgent injunctive relief (mandatory orders to stop infringing);
 - (v) the client engaging CGLaw to commence a Court proceeding seeking certain declarations as to infringement and claiming compensation.

¹¹ see s 120 *Patents Act 1990* (Cth)

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- (c) Importantly, 'groundless' or 'unjustified' threats can't be made¹². To do so breaches the various IP legislation in Australia and exposes a party to risk of injunctive relief, claims for compensation for any damages suffered as a result of the threats. That is unwelcome, with the costs and distraction associated with the process being highly undesirable.
- (d) There are commercial considerations at play in relation to any infringement action:
- (i) the costs associated with taking action;
 - (ii) the time involved in taking action;
 - (iii) prospects of success;
 - (iv) whether licensing the IP to the infringer would produce a better outcome;
 - (v) other market pressures which could be brought to bare on the infringer (supply channel pressures or otherwise);
 - (vi) the remaining life of the registered IP;
 - (vii) the revenue streams attached to the IP, and the earning trajectory for those revenue streams.
- (e) We take these commercial factors into account when advising clients on their options.



Clifford Gouldson Lawyers

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Disclaimer: No part of this paper can be regarded as legal advice. Although care has been taken in preparing the content of this paper, readers must not alter their position (or that of others) in reliance on this paper. All enquiries should be directed to CG Law (Trading) Pty Ltd trading as Clifford Gouldson Lawyers, otherwise known as CGLaw.

¹² see s 128 *Patents Act 1990* (Cth), ss 202, 202A & 242 *Copyright Act 1968* (Cth), s 77 *Designs Act 2003* (Cth), s 57A *Plant Breeder's Rights Act 1994* (Cth), s 46 *Circuit Layouts Act 1989* (Cth)

4. Workshop Case Examples

4.1 Case Example 1: Software Development Agreement

(a) FACTS

- (i) Our client entered into a Software Development Agreement with a US company.
- (ii) Our client did not have the Agreement reviewed by lawyers before signing. The amount payable for software development under the Agreement exceeded AUS \$500,000.00. By the time the client sought our advice, it had been invoiced for the majority of that sum, with about 65% of invoices issued paid.
- (iii) The Agreement contained: inadequate software development milestone dates; inadequate descriptions of service levels required of the software developer; and imprecise scope descriptions to ensure they were getting what they wanted.
- (iv) The Agreement also contained a forum and jurisdiction clause which meant the laws of the State of Illinois, USA applied to the Agreement, and that any dispute needed to be litigated in the Courts of the Cook County, Illinois, USA.

(b) PROBLEM

- (i) Our client could not get the software built satisfactorily. In order to litigate under the Agreement, it was felt it had to go to USA at enormous inconvenience and expense. Court action was being threatened against our client in USA for invoice payments.

(c) SOLUTION

- (i) We considered whether there were causes of action available to our client outside the Agreement. Our view was that our client had been the subject of misleading and deceptive conduct in breach of the Australian Consumer Law, and we acted swiftly and obtained Judgment for over \$448,000.00 against the software developer, and proceeded to apply for and obtain the first ever Anti-Anti-Suit Injunction in Australia from the Federal Court of Australia. We effectively stifled the ability for the software developer to take action against our client in USA and Australia without having to first pay our client the amount of the judgment plus interest plus costs.
- (ii) As a result, our client could contract with an Australian software developer, and on this occasion the project and Agreement was scoped appropriately and with adequate provisions in the Agreement to offer protection to our client and ensure money spent was worthwhile.

4.2 Case Example 2: Brand Protection & License Agreement

(a) FACTS

- (i) Our client operates a business involving certification of the food products of others - something necessary for those food producers under Government regulations in Australia and Worldwide.
- (ii) Our client had repeatedly found their business being undermined by an inappropriate and unauthorized use of their brand (trade mark) and getup, which was starting to effect their revenue stream because customers who were previously paying for the certification were seeing opportunities to avoid that cost in their business.
- (iii) Our client's certification terms and conditions were inadequate, and our client had taken little steps to protect their brand.

(b) PROBLEM

- (i) Revenue was declining. Competitors were taking advantage of the position.

(c) SOLUTION

- (i) We immediately registered our client's trade marks (word, composite and logo), expediting the application given the urgent commercial reasons at hand.
- (ii) We redesigned the client's engagement process with their customers. Instead of a set of terms of trade which looked unprofessional and caused customers to question the value they received in what they were paying our client for, we built a process leading to being approved to receive a License Agreement from our client, where the customers felt they were privileged to be permitted to use our client's certification brand getup and paraphernalia on clearly defined (but limited terms).

4.3 Case Example 3: Designs, Copyright & Trade Mark Infringement

(a) FACTS

- (i) Our client acquired some drawings for the manufacture of popular mobile terrain cranes which had been manufactured, sold and supported (parts and servicing) in Australia for decades with an excellent reputation.
- (ii) The company which originally operated the crane business was based in Perth, WA, and created many drawings, designs and secured registered trade marks, before falling into receivership and entering liquidation.
- (iii) The Liquidators sold the IP associated with the business to a first third party who operated the business and created more drawings over another 3 year period.
- (iv) The first third party on-sold the IP associated with the business to a second third party who operated the business and created more drawings over another 3 year period.
- (v) The second third party on-sold the IP associated with the business to a third third party who operated the business and created more drawings over another 5 year period.
- (vi) The third third party on-sold the IP associated with the business to a fourth third party who operated the business and created more drawings over another 2 year period.
- (vii) The fourth third party on-sold the IP associated with the business to a fifth third party who took less active steps to operate the business from within Australia because they were exploring overseas manufacture of the cranes from China.
- (viii) During this vacuum of trade, with cranes of the original brand operating around Australia and a brand reputation continuing, our client incorporated a new company and business name using the name of the original brand, registered a series of domain names using the original brand, procured drawings for the cranes and commenced a process to manufacture the cranes in India for sale and support (parts and servicing) throughout Australia. All of this was done without legal advice, and hundreds of thousands of dollars was invested in the venture.

(b) PROBLEM

- (i) Our client had secured the company and business name, but no trade marks, and had procured drawings and designs without lawful authority.
- (ii) Our client was sued by the owner of the trade marks, designs and copyright for damages including an account of any profits made on the venture.

(c) SOLUTION

- (i) We investigated and mounted an argument that: the cranes had been industrially applied without a corresponding design registration (rendering any copyright infringement claim otiose); the trade marks were challengeable through non-use; there was no impediment to our client securing registered trade marks.
- (ii) The matter was litigated until close to trial at which point the matter settled on favourable terms including payment of our client's costs of the copyright infringement proceedings. Our client was forced to give up the trade marks and change its company name, effectively rebranding.

VALUING INTANGIBLES

Tangible assets are easier to value. There're typically physical assets with finite monetary values, but over the years have become a smaller part of a company's total worth. As technology development continues, and organizations increasingly rely on emerging developments in artificial intelligence, robotics and cloud computing, intangible assets have grown to represent the lion's share of corporate valuations. But without a physical form and the ability to easily convert them into cash, working out what these assets are truly worth can be challenging.

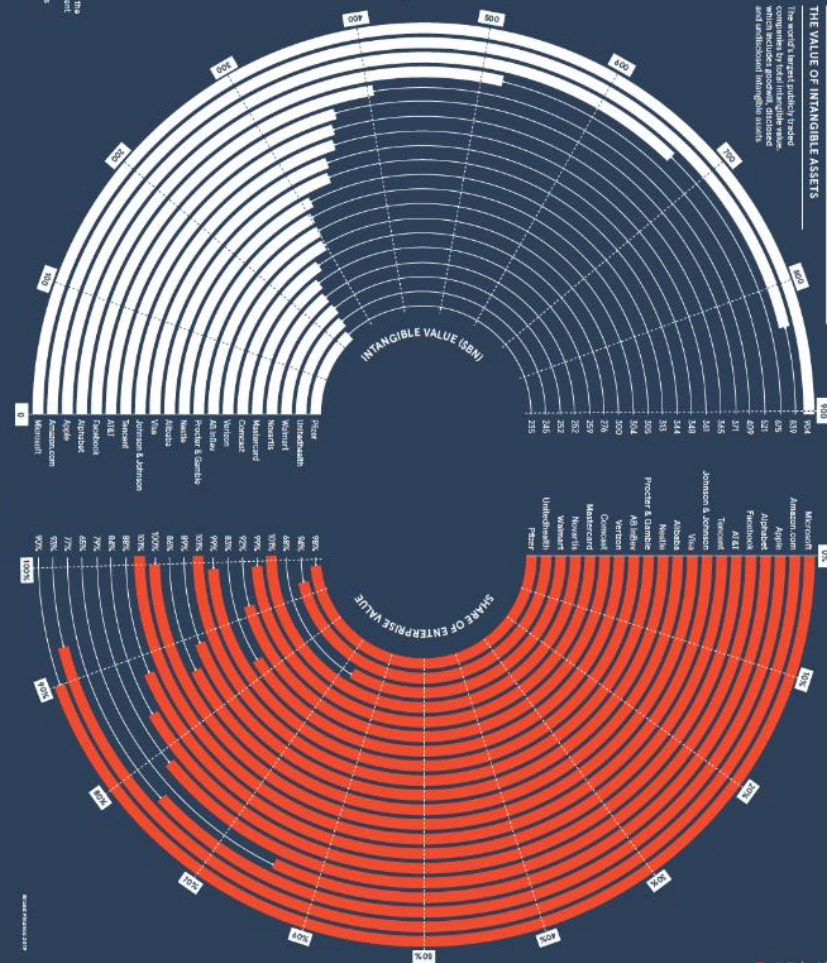
THE EIGHT KEY INTANGIBLE CATEGORIES

The majority of these categories can be protected by various intellectual property laws.

- 01 INTELLECTUAL PROPERTY** Assets that are intangible, such as patents, copyrights, trademarks and design services.
- 02 R&D RIGHTS*** Rights of value generated by R&D activities, such as research and development agreements.
- 03 TRADEMARK** Marks associated with a company's goods, such as brand equity.
- 04 HUMAN CAPITAL**** Assets that have to do with the skills and knowledge of employees, such as employee stock ownership plans.
- 05 DATA*** Stored information on hard or soft drives, such as social media.
- 06 NON-CUSTOMER RIGHTS** Assets that can't be sold to a third party, such as a non-compete clause or a confidentiality agreement.
- 07 RELATIONSHIPS** Values associated with a company's customer base.
- 08 PUBLIC RIGHTS** Rights of value generated by the public's use of intangible assets, such as advertising and trademark rights.

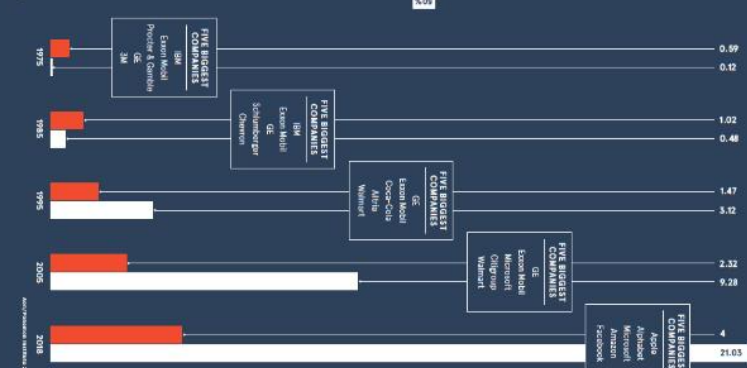
THE VALUE OF INTANGIBLE ASSETS

The world's largest public U.S. listed companies with intangible assets on their balance sheets, which include goodwill and other intangible assets.



INTANGIBLE VERSUS INTANGIBLE ASSETS COMPARISON

How companies on the S&P 500 have historically valued their intangible assets compared to their tangible assets.



YACONTEUR

ALL DATA IS UNLESS OTHERWISE SPECIFIED
BASED ON DATA AS OF 12/31/2018

Type of Intellectual Property (IP)	Patent	Trade Mark	Design	Plant Breeder's Rights	Copyright	Circuit Layouts	Trade Secrets/Confidential Information
What it means	The owner has exclusive rights to commercially exploit the invention for the life of the patent. The owner can use, sell or license the invention and can also stop others from manufacturing, using, copying and/or selling the invention	A trade mark is used to distinguish the goods and services of one trader from those of another. The owner has exclusive rights to use, sell or license the trade mark	The overall visual appearance of a product is protected, but not the way it works or how it is made. The owner has exclusive rights to use, sell or license the design	Plant Breeder's Rights protect new plant varieties by giving exclusive commercial rights to exploit a new plant variety or its reproductive material	The owner's original expression of ideas is protected, but not the ideas themselves. The owner has exclusive rights to use, sell or license the copyright work	These types of IP give certain rights depending on the type of IP protection regime, but generally, the owner has exclusive rights to use, sell or license the IP	
What is protected	Products, processes, inventions	Business identities, reputation, brands	2 and 3 dimensional product designs	New plant varieties	Original works of authorship	Original layout designs for integrated circuits and computer chips	Secret process, technique, method, etc used to advantage in a trade, business or profession
Typical items that may be protected	Functional items like machines, toys, games, computers, software programs, processes, methods, tools, and other items of utility	Letters, names, symbols, figures, numbers, words, colours, phrases and slogans, sound, smell, logo, shape, picture, or any combination of these	A fabric pattern, the shape of a chair	Orchids, trees, vines	Art, photographs, books, literature, sculptures, plays, drawings, music, film, broadcasts, computer programs and other items of original authorship		
Is registration required	Yes	Recommended	Yes	Yes	No	No	No
Duration	8, 20 or 25 years if annual fees paid	Initially 10 years, renewable every 10 years if fees paid and still in commercial use	5 years, renewable up to 10 years from date of application	20 or 25 years if fees paid	Life of author + 70 years	10 years from creation, and another 10 years from first commercial exploitation	Until no longer a secret
Renewable (payment of fees and commercial use may be required)	No	Yes	No	No	No	No	Not applicable