
Top 10 Intellectual Property Mistakes

by Malcolm McBratney, Partner

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Intellectual property is an extremely valuable asset, however, its importance in commercial dealings and transactions does not always get the legal attention it deserves. Often mergers and acquisitions, capital raising and day to day commercial dealings occur without a proper consideration of intellectual property issues. These simple oversights can result in costly legal problems when things go wrong. These are the top ten intellectual property mistakes that we see businesses make far too regularly.

1 Freedom to operate

One of the major risks associated with innovation and new products and services is potential infringement of a third party's intellectual property rights. To minimise these risks, it is prudent to determine your freedom to operate (**FTO**). This involves considering whether a certain action, such as launching a new product or service or entering a new geographic market, can occur without infringing the intellectual property rights of third parties.

Essentially conducting FTO inquiries is akin to ensuring that you 'look before you leap' so as to prevent stepping on the toes of any third parties. In terms of names, brands and logos it is important to conduct various searches to make sure that the name, brand or logo you wish to use is not so similar to someone else's name, brand, logo or registered trade mark that it is likely to cause confusion and leave you open to a potential infringement. As intellectual property rights are mostly peculiar to each issuing jurisdiction, it is important to consider FTO inquiries in each country or territory in which you wish to operate. Thorough FTO inquiries can reduce risk and the potential of spending large sums of money defending actions for infringement.

2 Premature disclosure or publication

Premature disclosure or publication can jeopardise the ability to register various forms of intellectual property. For this reason it is crucial to keep your intellectual property confidential and put in place any necessary confidentiality or non-disclosure agreements from the outset. While it may be tempting, it is important not to disclose or to use an invention or design until after the requisite patent or design applications have been filed, to ensure that registration may be effected.

3 Not securing intellectual property from contractors

Most businesses assume that if they pay someone to create something for them (e.g. software), that the business will be the owner of the intellectual property created. However, while the general position is that an employer will be the owner of any intellectual property created by an employee during the course and scope of their employment, the position regarding contractors is that the contractor will own any intellectual property that is created. This is a common oversight when negotiations are taking place for work to be done. These matters should be considered at the outset of the project and appropriate agreements assigning intellectual property to the customer should be executed before work commences.

4 Not conducting a thorough intellectual property due diligence

Intellectual property can add considerable commercial value to a company and should not be overlooked in the due diligence process. If acquiring a business or company, or entering into a distributorship or licensing agreement, it is crucial to ascertain whether the party you are acquiring intellectual property rights from actually has the right and ability to grant those rights. You should consider whether the granting party is the owner of the intellectual property in question. Determining the chain of title is a

useful tool to establish proprietary rights as it ascertains the sequence of historical transfers of title to the intellectual property. If acquiring a business or company that is the licensee of intellectual property, take time to consider the terms of the licence agreement as it is not uncommon for the licensor to have a right to terminate the agreement upon a change of control of the licensee. It is also important to consider any rights and obligations that you are taking on under the agreements of the business or company that you wish to acquire. Freedom to operate also remains an issue in these types of transactions.

5 Joint ownership of intellectual property

When collaborating, for example on a research project, it is often difficult to know what will result. Many businesses fail to properly deal with ownership of resulting intellectual property or simply agree to joint ownership. While at first glance co-ownership may appear to be a convenient solution it can be rife with problems. Co-ownership gives co-owners different rights in different countries. In Australia co-ownership can limit a party's ability to commercialise the intellectual property without the permission of the other co-owners. If commercialisation is something that you are contemplating, it is important to agree to these rights upfront. To prevent any uncertainty your agreement should expressly provide for who owns the resulting intellectual property and who has the right to commercialise and enforce the intellectual property.

6 Not registering a trade mark

A common misconception is that the registration of a business, company or domain name confers exclusive rights in that name. However, business and company names are no more than statutory requirements and registration does not give the owner any proprietary right as such to use the name. Similarly the registration of a domain name does not confer exclusive rights. To have a proprietary form of intellectual property you must have a registered trade mark. In Australia registration grants an owner the exclusive right to use or authorise the use of the trade mark for renewable periods of ten years as well as bring an action for infringement. Trade marks are country by country so businesses should register trade marks for their important names, brands and logos in each country they operate in or intend to operate in within the next 3-5 years.

7 Not obtaining appropriate warranties and indemnities in relation to licensed intellectual property

Obtaining goods or services or intellectual property from a supplier will not necessarily protect you if a third party sues you for breaching their intellectual property rights. Ideally, as a customer, you should obtain a warranty from the supplier that they have the authority to grant the licence and that the exercise of the licence rights will not infringe any third party's intellectual property rights. It is also prudent to obtain an indemnity from the licensor against third party claims. You should also confirm that the supplier has insurance or is of sufficient substance to defend a claim.

8 Not documenting intra-group licences

Licences granted between entities in the same group may seem harmless, however, if not documented correctly, problems can arise. If a licence is not documented and the terms of the licence not carefully drafted, various issues may surface in situations such as a re-structuring of the corporate group or a change of control. In bringing an action for infringement it is essential that the entity who has the right to sue and recover damages is named as the proper plaintiff. In the case of third party claims it is important to ensure that the right group is defending the action and appropriate warranties and indemnities are in place. Documenting intra-group licences is also an important issue in relation to trade marks. For a trade mark to be registered it must be used or intended to be used by the applicant or someone authorised by the applicant. While a authorised user can extend to a large number of subsidiaries, owners must exercise some degree of control over what is done with the mark. For this reason it is important that licences are documented correctly so that the proprietary owner and the 'authorised user' are known and appropriate arrangements are in place.

9 Compliance with the Franchising Code of Conduct

Often businesses enter into supply, distribution or other commercial agreements, without realising that the agreement may in fact at law be a franchise agreement. Very simply speaking a franchise agreement consists of an agreement that grants a right to carry on a business under a system or marketing plan substantially controlled or determined by the franchisor, that is associated with a name or trade mark and payment is made to the franchisor. If the agreement is a franchise, the franchisor is subject to numerous obligations under the Franchising Code of Conduct which includes amongst other things the requirement to create a disclosure document before entering into the agreement and to include certain terms in the agreement itself. A breach of the Franchising Code of Conduct is a breach of the *Trade Practices Act 1974* (Cth), with severe consequences.

10 Privacy Act 1988 (Cth) compliance

Private sector organisations that turn over more than \$3 million per annum are required to comply with the *Privacy Act 1988* (Cth). Many businesses remain non-compliant with the *Privacy Act* notwithstanding its application to the private sector since 2001. Further, organisations should also be aware of the *Spam Act 2003* (Cth) which regulates the sending of unsolicited commercial electronic messages by all organisations, even those with a turnover of under \$3 million.

Conclusion

Of course, not all of our clients make these mistakes and many do seek advice before entering into agreements or major transactions. Many seek assistance in either drafting their own agreements or negotiating the other party's agreement. More often than not, these clients end up with agreements that maximise the value of their intellectual property and better manage the risks.

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