

Intellectual Property Rights & International Law

Rocky Mountain World Trade Center Institute

International Legal Essentials

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December 10, 2014

Agenda

- Intellectual Property Rights
- International Overview
- Export Control
- FCPA
- Common issues in Manufacturing, Sales and Distribution Agreements

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Intellectual Property Protection

Agenda

- Importance of Intellectual Property
- Complete History of Intellectual Property (Abridged)
- Types of IP Rights
 - Patents
 - Trade Marks
 - Copyrights
 - Trade Secrets
- Common IP Traps

Importance of Intellectual Property

Importance of Intellectual Property -1

- In 2011, the 10 largest U.S. IP verdicts totaled \$4.6 Billion dollars (double the total of 2010), including:
 - \$2.3 billion verdict against an ex-employee of St. Jude who was accused of passing secrets to a Chinese company
 - \$920 million award against South Korean company for usurping Kevlar information
- From 2009 through 2011 there have been five intellectual property verdicts in excess of one billion dollars

Importance of Intellectual Property -2

■ Examples of Recent Injunctions

- August, 2012 – Samsung enjoined from selling 8 phones (overturned October 11, 2012)
- February, 2012 - Apple enjoined from using push functionality in iCloud Services in Germany due to Motorola patent
- October, 2011 - Bosch enjoins Pylon's sale of windshield wipers in U.S.
- November 2010 - AstraZeneca enjoined Apotex from selling a generic version of an asthma drug

Complete History of Intellectual Property (Abridged)

Complete History of Intellectual Property (Abridged) -1

- **5000 BC –**
Ownership marking
on cave paintings



Complete History of Intellectual Property (Abridged) -2

- **300 BC** – first patent issued by Sybaris (Greek City) for a recipe
- **1266** – England enacts Bakers Marking Law
- **1300s** – English Crown grants guilds “exclusive” rights to trade within a town
- **1326 – 1485** – Crown grants exclusive rights to first individuals or guilds willing to undertake new ventures
- **1501** – Pope Alexander VI prohibits printing of unlicensed books
- **1559** – List of Prohibited Books

Complete History of Intellectual Property (Abridged) -3

- **1558** – Queen Elizabeth I – begins granting “patents” for the importation of various goods and creation of inventions
- **1571-1601** – Parliament begins limiting the Queen’s power to issue patents
- **1624 - Statute of Monopolies**
 - swept away most monopolies, with some exceptions
 - limited the term of many patent grants
 - required patent be issued to true and first inventor

Complete History of Intellectual Property (Abridged) -4

- **1710** – Statue of Anne – England passes copyright law
- **1773** – Tea Act –allowed East India Company to provide lower priced tea to the Colonies
- **1773** - Boston Tea Party
- **1776** – Declaration of Independence
- **1789** – U.S. Constitution (Article I, Section 8, Clause 8) gives Congress power “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries”

Complete History of Intellectual Property (Abridged) -5

- **1791**- Thomas Jefferson urges passage of trademark law because of a dispute involving sail cloth (not passed until 1870)
 - Although common law rights existed and state statutes enacted earlier
- **1859** - Abraham Lincoln writes “the patent system added the fuel of interest to the fire of genius.”

Complete History of Intellectual Property (Abridged) - 6

- **1978** - The good patent gives the world something it did not truly have before, whereas the bad patent has the effect of trying to take away from the world something which it effectively already had.
 - Giles S. Rich
- **1982** – Congress forms a special appeals court (the Federal Circuit Court of Appeals) to hear all patent appeals

Types of IP Rights

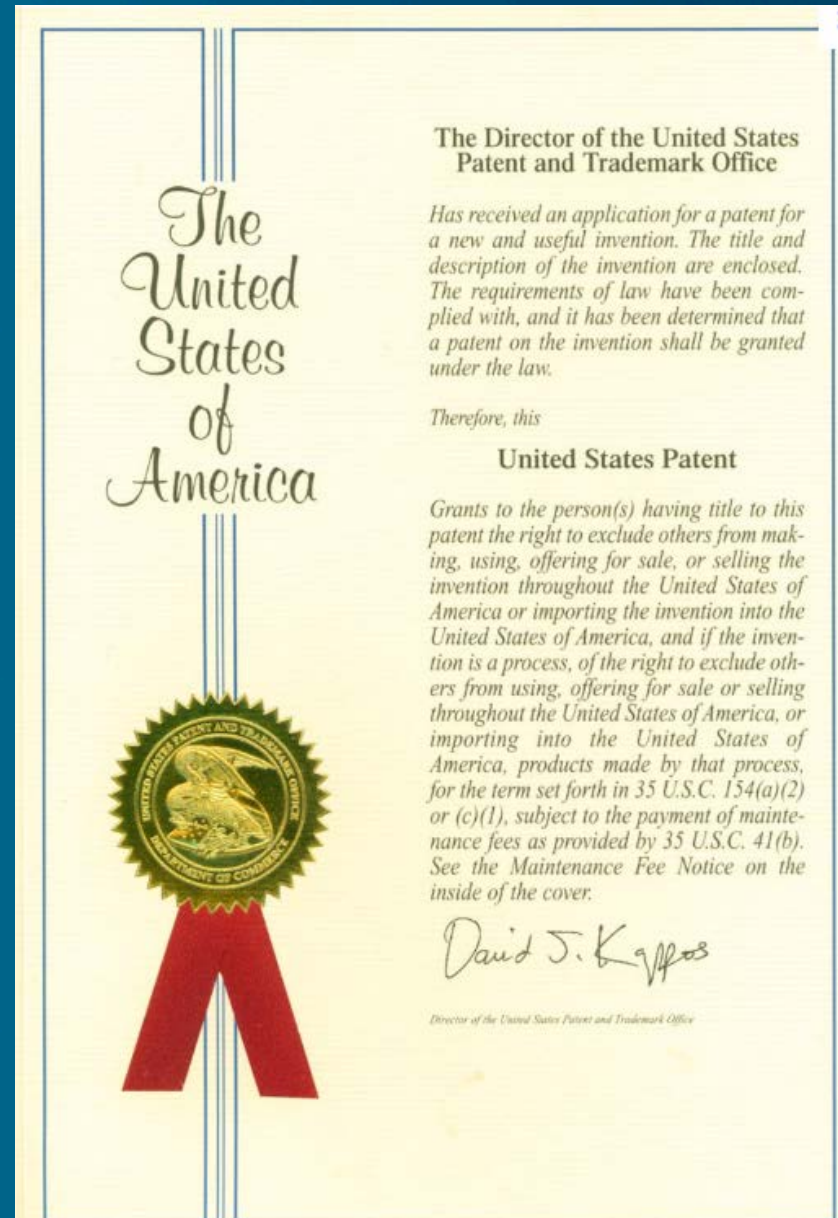
IP Overview

- 2 Basic Rules
 - You can use it unless it is protected
 - You only need to protect it if others are going to use it

IP Overview - 5 Categories Rights

Type of Right	Scope of Coverage	Example
Patents	Ideas - products, processes	Telephone
Trademarks	Identities, Quality	Coca-Cola[®]
Copyrights	Expressions of Ideas	Movies, Books
Trade Secrets	Confidential Information	Strategies, Lists
Contracts	Fills Gaps	Confidentiality Agmt., License

Patent Overview



Patent Overview 1

- Patents are a right to sue to prevent someone else from “practicing the patent” -- making, using, selling, importing or offering to sell the invention
- Patents protect:
 - Processes, machines, manufactured items or compositions of matter
 - “Anything man-made under the sun” (see next slide)
 - Must be:
 - Novel (not identically described elsewhere), and
 - Non-obvious (not obvious to one skilled in the art)

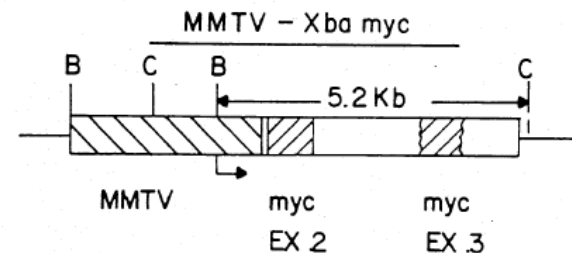
Patent Overview 2

- Utility Patent for Transgenic Non-Human Mammal
- The “Oncomouse”



United States Patent [19]	[11] Patent Number: 4,736,866
Leder et al.	[45] Date of Patent: Apr. 12, 1988

[54] TRANSGENIC NON-HUMAN MAMMALS	Blair et al, <i>Science</i> 212:941-943, 1981.
[75] Inventors: Philip Leder, Chestnut Hill, Mass.; Timothy A. Stewart, San Francisco, Calif.	Der et al, <i>Proc. Natl. Acad. Sci. USA</i> 79:3637-3640, Jun. 1982.
[73] Assignee: President and Fellows of Harvard College, Cambridge, Mass.	Shih et al, <i>Cell</i> 29:161-169, 1982.
[21] Appl. No.: 623,774	Gorman et al, <i>Proc. Natl. Acad. Sci. USA</i> 79:6777-6781, Nov. 1982.
[22] Filed: Jun. 22, 1984	Schwab et al, <i>EPA-600/9-82-013, Sym: Carcinogen, Polynucl. Aromat. Hydrocarbons Mar. Environ.,</i> 212-32 (1982).
[51] Int. Cl.⁴ C12N 1/00; C12Q 1/68; C12N 15/00; C12N 5/00	Wagner et al. (1981) <i>Proc. Natl. Acad. Sci. USA</i> 78, 5016-5020.
[52] U.S. Cl. 800/1; 435/6; 435/172.3; 435/240.1; 435/240.2; 435/320; 435/317.1; 935/32; 935/59; 935/70; 935/76; 935/111	Stewart et al. (1982) <i>Science</i> 217, 1046-8.
[58] Field of Search 435/6, 172.3, 240, 317, 435/320, 240.1, 240.2; 935/70, 76, 59, 111, 32; 800/1	Costantini et al. (1981) <i>Nature</i> 294, 92-94.
[56] References Cited	Lacy et al. (1983) <i>Cell</i> 34, 343-358.
U.S. PATENT DOCUMENTS	McKnight et al. (1983) <i>Cell</i> 34, 335.
4,535,058 8/1985 Weinberg et al. 435/91	Binster et al. (1983) <i>Nature</i> 306, 332-336.
4,579,821 4/1986 Palmiter et al. 435/240	Palmiter et al. (1982) <i>Nature</i> 300, 611-615.
	Palmiter et al. (1983) <i>Science</i> 222, 814.
	Palmiter et al. (1982) <i>Cell</i> 29, 701-710.
OTHER PUBLICATIONS	<i>Primary Examiner</i> —Alvin E. Tanenholtz <i>Attorney, Agent, or Firm</i> —Paul T. Clark
Ucker et al, <i>Cell</i> 27:257-266, Dec. 1981.	[57] ABSTRACT
Ellis et al, <i>Nature</i> 292:506-511, Aug. 1981.	A transgenic non-human eukaryotic animal whose germ cells and somatic cells contain an activated oncogene sequence introduced into the animal, or an ancestor of the animal, at an embryonic stage.
Goldfarb et al, <i>Nature</i> 296:404-409, Apr. 1981.	
Huang et al, <i>Cell</i> 27:245-255, Dec. 1981.	



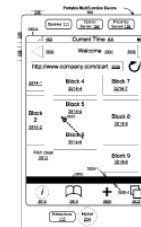
Patent Overview 3

- An example of a utility patent:
 - A new, non-obvious and useful **process, product or composition of matter**, or any new and useful improvement thereof.



(12) United States Patent		(10) Patent No.: US 7,469,381 B2	
Ording		(45) Date of Patent: Dec. 23, 2008	
<hr/>			
(54) LIST SCROLLING AND DOCUMENT TRANSLATION, SCALING, AND ROTATION ON A TOUCH-SCREEN DISPLAY	6,489,951 B1	12/2002	Wong et al. 345:173
	6,567,102 B2	5/2003	Kang 345:660
(75) Inventor: Bas Ording , San Francisco, CA (US)	(Continued)		
(73) Assignee: Apple Inc. , Cupertino, CA (US)	FOREIGN PATENT DOCUMENTS		
(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 0 days.	EP	0 635 779 A1	1/1995
(21) Appl. No.: 11/956,969	(Continued)		
(22) Filed: Dec. 14, 2007	OTHER PUBLICATIONS		
(65) Prior Publication Data	Microsoft Word 2003 Screen Shots*		
US 2008/0168404 A1	Jul. 10, 2008	(Continued)	
Related U.S. Application Data			
(60) Provisional application No. 60/937,993, filed on Jun. 29, 2007, provisional application No. 60/946,971, filed on Jun. 28, 2007, provisional application No. 60/945,858, filed on Jun. 22, 2007, provisional application No. 60/879,469, filed on Jan. 8, 2007, provisional application No. 60/883,801, filed on Jan. 7, 2007, provisional application No. 60/879,253, filed on Jan. 7, 2007.	<i>Primary Examiner</i> —Boris Pesin (74) <i>Attorney, Agent, or Firm</i> —Morgan, Lewis & Bockius LLP		
(51) Int. Cl.	(57) ABSTRACT		
G06F 3/01 (2006.01)	In accordance with some embodiments, a computer-implemented method for use in conjunction with a device with a touch screen display is disclosed. In the method, a movement of an object on or near the touch screen display is detected. In response to detecting the movement, an electronic document displayed on the touch screen display is translated in a first direction. If an edge of the electronic document is reached while translating the electronic document in the first direction while the object is still detected on or near the touch screen display, an area beyond the edge of the document is displayed. After the object is no longer detected on or near the touch screen display, the document is translated in a second direction until the area beyond the edge of the document is no longer displayed.		
(52) U.S. Cl.	715/702 ; 715/764; 715/863; 715/864; 715/769		
(58) Field of Classification Search	715/764; 715/769, 702, 863, 864		
	See application file for complete search history.		
(56) References Cited			
U.S. PATENT DOCUMENTS			
5,495,566 A	2/1996	Kvatinetz	395:157
5,844,547 A	12/1998	Minakuchi et al.	345:173
5,867,158 A	2/1999	Murasaki et al.	345:341
6,034,688 A	3/2000	Greenwood et al.	345:353

20 Claims, 38 Drawing Sheets



Patent Overview 4

- **A design patent**
 - A new, non-obvious, original and **ornamental design** for an article of manufacture or improvement thereof.



FIG. 3

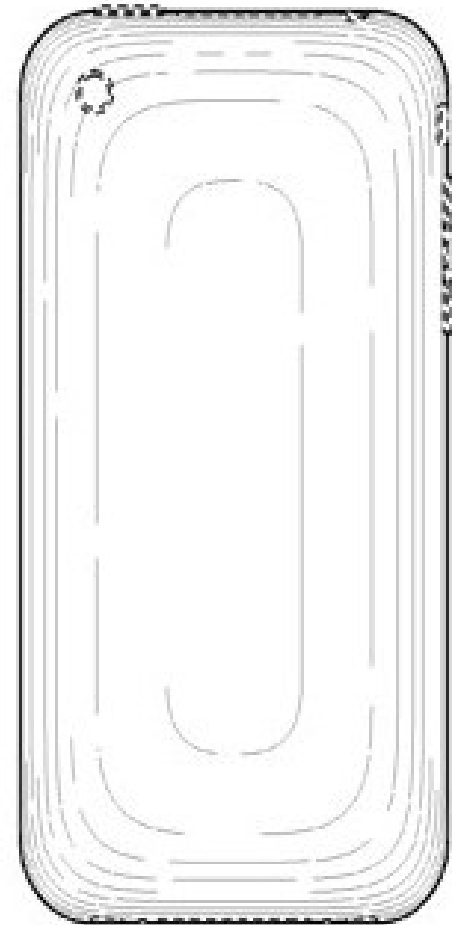


FIG. 4

Patent Overview 5

- Patents are only granted by the Federal Government
 - Lengthy application process
- Length of Protection
 - 20 years from filing date for Utility Patent
 - All recently filed patents are eligible for a term extension for Patent Office delays
 - Pharmaceutical patents are often extended for delays related to regulatory approval process
 - 14 years from grant date for Design Patent

Patent Overview 6

Contract Theory of Patents

- In essence, a patent represents a bargain between the government and an inventor.
- The government gives the inventor an exclusive right for the term of the patent.
- The inventor gives the public a full disclosure that teaches others how to make and use the invention. This full disclosure permits the public to learn from and build on what the inventor has created.
- The invention is given to the public after the patent term expires.

Patent Overview 8

- A patent application cannot be filed in the U.S. if:
 - The invention was described in a printed publication more than one year prior to filing the patent application
 - The invention was offered for sale more than one year prior to filing the patent application
 - “Offer for sale” has been interpreted broadly
 - A key concern for emerging companies
 - Note: foreign countries do not allow the one year grace period

Patent Overview 7 - Changing U.S. System

- U.S. previously used a “first to invent” system
 - Allows an inventor who files a patent application 2nd to still obtain the patent
- Patent Application file on or after March 16, 2013 U.S. will be subject to a “first to file” system
 - It will become more important to be first to the patent office
 - new patent law prohibits derivation from true inventor
 - new law allows prior use by people who don't own the patent to continue

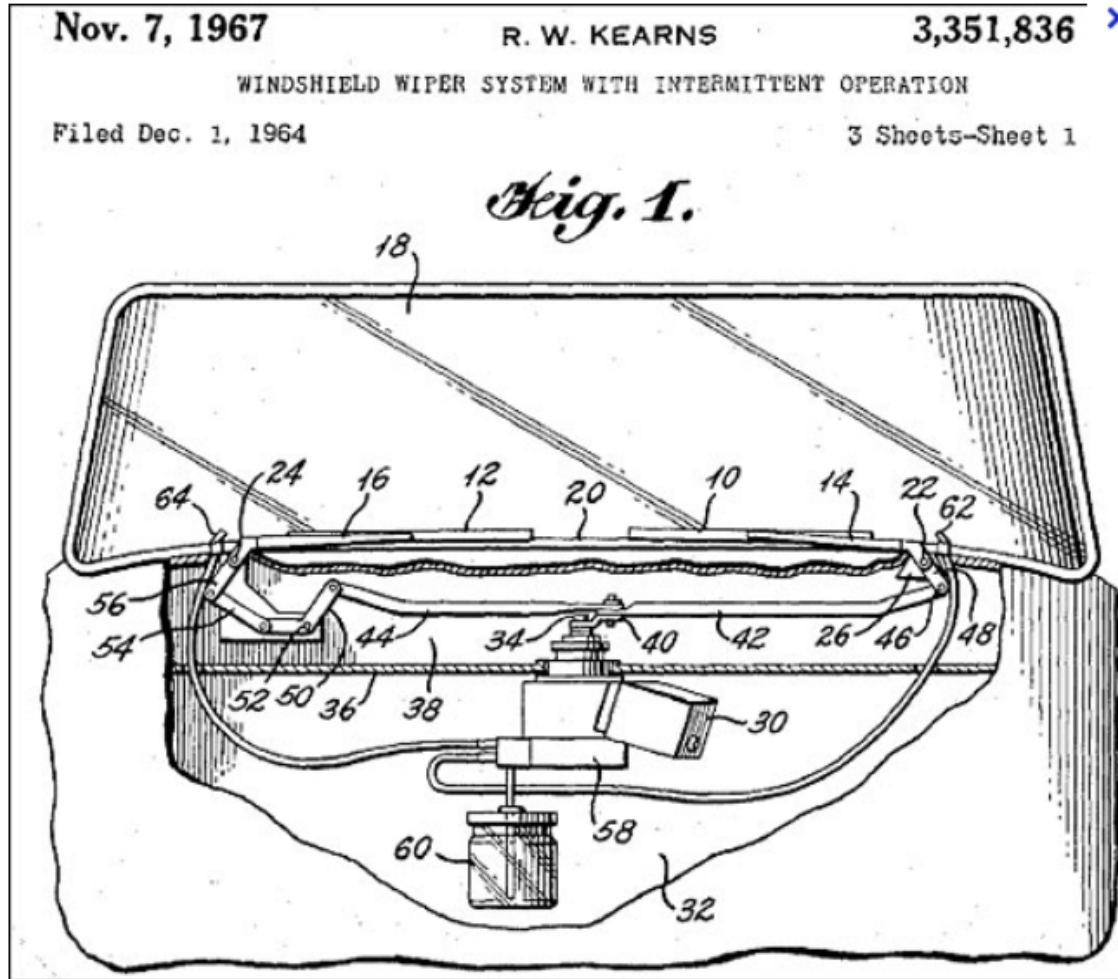
Patent Overview 9 – International Patent Process

- PCT Stage
 - File PCT application - designate PCT countries of interest
 - 18 months after priority date (1st US filing date) - patent published
 - 20 months - request preliminary examination
 - 28 months - receive PCT examination results
 - 30 months - final designation of national countries
- National Stage - entered after 30 months - can last 1-8 years
 - Patent application is filed in each country's patent office
 - Must be translated prior to filing

Commercially Valuable Patents

- Two Basic Characteristics:
- **Likelihood of use by others**
- **Ease of detecting infringement**
- These two characteristics are frequently found in patents focusing on
 - Concepts
 - Selling features
 - Architectural features
 - Product interfaces and protocols
 - Parts and supplies

Intermittent Windshield Wiper



AT&T “Bong - AT&T” Patent

United States Patent [19] Patent Number: 4,930,154
 Bauer et al. [45] Date of Patent: May 29, 1990

[54] AUDIBLE LOGO FOR IDENTIFYING A COMMON CARRIER

[75] Inventors: Thomas M. Bauer, Belle Mead; Thomas A. Dunn, Edison, both of N.J.; Christina M. Gurka, Naperville, Ill.; John W. Hopkins, Woodbridge, Ill.; Richard D. Nafziger, Wheaton, Ill.

[73] Assignee: AT&T Bell Laboratories, Murray Hill, N.J.

[21] Appl. No.: 341,458

[22] Filed: Apr. 21, 1989

[51] Int. Cl. H04M 3/42

[52] U.S. Cl. 379/246; 379/248; 379/260; 379/201

[58] Field of Search 379/240, 245, 246, 243, 379/263, 201, 213, 214, 210, 218, 221, 220, 240, 67, 88

[56] References Cited

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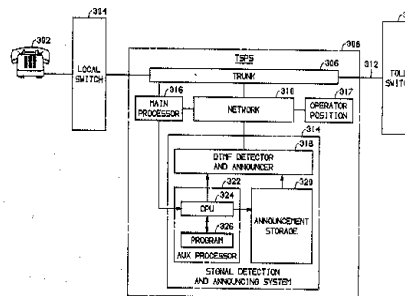
Bell System Technical Journal, TSPS No. 1, vol. 58, No. 6, Part 1 of 2, Jul.-Aug. 1979, pp. 1207-1223.

Primary Examiner—James L. Dwyer
 Attorney, Agent, or Firm—Werner Ulrich

[57] ABSTRACT

This invention relates to the application of an audible logo to a telecommunications call, for identifying the common carrier serving that call. A call is received in an operator assistance system. After applying a calling card prompt tone and prior to connecting the call to an operator position or receiving further digits such as those for a calling card number, the operator assistance system connects an audible logo, identifying a common carrier, to the call. Advantageously, a telephone customer receives the information necessary to identify whether his/her preferred common carrier is going to be used on this call at a sufficiently early time to make it convenient to disconnect and reoriginate. This information is particularly important for calls originated away from home or office, calls that are likely to be operator assistance 0 or 0+ (directory number) calls. Subsequently, the operator assistance call is processed as in the prior art. Advantageously, this arrangement identifies the common carrier on the calls where this identification is most needed without adding holding time to all direct dial station toll calls.

30 Claims, 3 Drawing Sheets



Amazon's "One-Click" Shopping Patent

United States Patent [19] Patent Number: 5,960,411
Hartman et al. [45] Date of Patent: Sep. 28, 1999

[54] METHOD AND SYSTEM FOR PLACING A PURCHASE ORDER VIA A COMMUNICATIONS NETWORK

[75] Inventors: Port Hartman, Jeffrey P. Dezo, Shol Kaphan, Joel Splegal, all of Seattle, Wash.

[73] Assignee: Amazon.com, Inc., Seattle, Wash.

[21] Appl. No.: 08/928,951

[22] Filed: Sep. 12, 1997

[51] Int. Cl. G06F 17/00

[52] U.S. Cl. 705/26; 705/27; 345/692

[58] Field of Search 705/26; 27; 380/24; 380/25; 385/2; 378; 381; 394/188.01; 345/692

[56] References Cited

U.S. PATENT DOCUMENTS

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5,204,897	4/1993	Wyman	3804
5,240,889	1/1993	Wojcik	3801
5,877,940	5/1997	Robes et al.	8057
5,840,501	8/1997	Luigi	390906
5,605,577	6/1997	Schubert	395799
5,664,411	9/1997	Palak et al.	70527
5,715,314	2/1998	Evans et al.	38024
5,725,289	2/1998	Boon	70527
5,727,618	3/1998	Boon	70527
5,745,681	4/1998	Levine et al.	3952003
5,758,126	5/1998	Dorsh et al.	395500

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W3 96/0709	7/1996	WIPO	0867	1700
W3 98/0107	5/1998	WIPO	0867	1700

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Jones, Chris. "Java Shopping Cart and Java Wallet; Oracle plans to join e-commerce initiative." Mar. 31, 1997, Info-World Media Group.

[11] Patent Number: 5,960,411
[45] Date of Patent: Sep. 28, 1999

"Pacific Coast Software Software creates virtual shopping cart." Sep. 6, 1996, M2 Communications Ltd 1996.
"Software Creates Virtual Shopping Cart." Sep. 5, 1996, Business Wire, Inc.
Tendofavich, William. "Java Electronic Commerce Framework." Computer Reseller News, Sep. 23, 1996, CMP Media, Inc., 1996, pp. 126, http://www.electronics.com/101/101guide...?ydsid=02208&library_id&type=0-0&id=0. [Accessed Nov. 19, 1998].
"Interact Access: Disc Distributing Associates Interactive World Wide." Cambridge Work-Group Computing Report, Cambridge Publishing, Inc., 1995, http://www.willitray.com/inf01/101guide...?ydsid=007197&library_id&type=0-0&id=0. [Accessed Nov. 19, 1998].

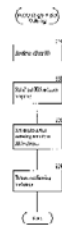
(List continued on next page.)

Primary Examiner—James P. Trammell
Assistant Examiner—Doretha R. Smith
Attorney, Agent, or Firm—Perkins Coie LLP

ABSTRACT

A method and system for placing an order to purchase an item via the Internet. The order is placed by a purchaser at a client system and received by a server system. The server system receives purchaser information including identification of the purchaser, payment information, and shipment information from the client system. The server system then assigns a client identifier to the client system and associates the assigned client identifier with the received purchaser information. The server system sends to the client system the assigned client identifier and an HTML document identifying the item and including an order button. The client system processes and stores the assigned client identifier and receives and displays the HTML document in response to the selection of the order button, the client system sends to the server system a request to purchase the identified item. The server system receives the request and transmits the purchaser information associated with the client identifier of the client system to generate an order to purchase the item in accordance with the billing and shipment information whereby the purchaser effects the ordering of the product by selection of the order button.

26 Claims, 11 Drawing Sheets



iPhone Design Patent

U.S. Patent

May 26, 2009

Sheet 2 of 12

US D593,087

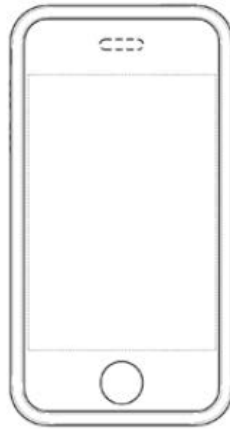


FIG. 3



FIG. 4

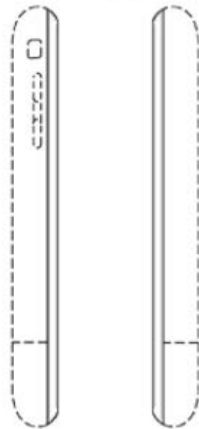


FIG. 7

FIG. 8



FIG. 5

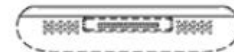


FIG. 6

NCR's "Clip" Patent

US005120906A

United States Patent [19] [11] Patent Number: 5,120,906
 Protheroe et al. [45] Date of Patent: Jun. 9, 1992

[54] HANDWRITING CAPTURE DEVICE

[75] Inventors: Robert L. Protheroe; David C. Willis; Scott M. Klemm, all of Clevelodge, Ohio

[73] Assignee: NCR Corporation, Dayton, Ohio

[21] Appl. No.: 780,430

[22] Filed: May 17, 1991

[51] Int. Cl. G06C 21/00

[52] U.S. Cl. 178/18; 382/3

[53] Field of Search 178/18, 19, 20, 382/3

[56] References Cited

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3,542,356	6/1965	Chase et al.	40/105
3,514,874	6/1970	Strohl	35/37
4,492,104	1/1985	Lukic	178/18 X
4,002,807	7/1986	Kalle	178/19
4,642,237	3/1989	Nakamura et al.	178/18
4,678,241	7/1987	Lukic	382/3 X

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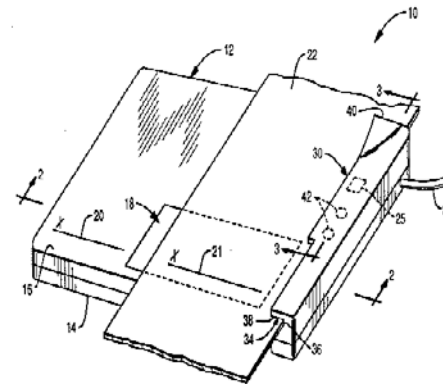
Allgeier et al., U.S. Ser. No. 07/515,096, Filed Aug. 30, 1990, U.S.

Primary Examiner—Stafford D. Schreyer
 Attorney, Agent, or Firm—Paul W. Martin

[57] ABSTRACT

A handwriting capture device which employs a highly sensitive digitizer to accurately capture signature information entered using a writing force greater than or equal to a predetermined writing force. The handwriting capture device includes a housing having a top surface, a receiver membrane digitizer mounted in the top surface and having a low pattern density, a layer of urethane rubber for frictionally holding the receipt in place, circuitry for processing digitizer information, a clamp for retaining a receipt in place over the digitizer during movement of the device, and circuitry for sensing the presence of the receipt and for activating data capture by the digitizer when the receipt is positioned inside the clamp. In the preferred embodiment, the clamp also serves to minimize finger contact with the digitizer.

28 Claims, 3 Drawing Sheets



When to Avoid Filing a Patent

- Costs outweigh the benefits (should be evaluated at the dollar level and strategic level)
- Value of the product/service is not in the patented technology (e.g. branding)
- Protection can be easily circumvented
- Discovering infringement will be very difficult
- Patent/technology is non-strategic to the business

Patent Infringement

Infringement analysis is a two-step process:

- Claims are construed by a court
 - Claim construction is a **very complex** process
- Infringement is determined by comparing the allegedly infringing product to the patent claims, not the rest of the specification or anything else.

Trademark Overview

The United States of America



CERTIFICATE OF REGISTRATION PRINCIPAL REGISTER

The Mark shown in this certificate has been registered in the United States Patent and Trademark Office to the named registrant.

The records of the United States Patent and Trademark Office show that an application for registration of the Mark shown in this Certificate was filed in the Office; that the application was examined and determined to be in compliance with the requirements of the law and with the regulations prescribed by the Director of the United States Patent and Trademark Office; and that the Applicant is entitled to registration of the Mark under the Trademark Act of 1946, as Amended.

A copy of the Mark and pertinent data from the application are part of this certificate.

To avoid CANCELLATION of the registration, the owner of the registration must submit a declaration of continued use or excusable non-use between the fifth and sixth years after the registration date. (See next page for more information.) Assuming such a declaration is properly filed, the registration will remain in force for ten (10) years, unless terminated by an order of the Commissioner for Trademarks or a federal court. (See next page for information on maintenance requirements for successive ten-year periods.)



Jon W. I. Dudas

Director of the United States Patent and Trademark Office

Trademark Overview 1

- Trademarks Protect:
 - Words, names, symbols, devices, sounds, smells, trade dress, or product shapes
 - Examples: Coca-Cola, Coke bottle, NBC chimes, Owens Corning pink
 - that identify and distinguish goods and services
 - Example: calling a computer “Apple” is distinctive
 - Example: calling the fruit an “apple” is not distinctive
- Trademarks prevent others from using a word, name, symbol, device that:
 - causes a likelihood of consumer confusion, mistake or deception; or
 - dilutes the distinctive nature of a mark

Trademark Overview 2

- 2 Ways to Obtain U.S. Trademark Rights
 - Use the mark
 - Have a bona fide intent to use the mark followed by use of the mark
- 3 Types of Trademark Rights
 - Federal (Use, Intent to Use)
 - State (Use, Intent to Use - Depending on State)
 - Common Law (Use)
- Length of Protection
 - Common Law - as long as properly used as a trademark
 - Federal Registration - initial term 5/10 years - Renewable for 10 year periods - no limit on renewals

Trademark Overview 3

- Many Countries are “first-to-file” jurisdictions
 - The first party to submit a trademark application owns the mark
 - Exceptions:
 - The owner of an internationally famous trademark may challenge the application
 - Madrid and PCT trademark filings may have priority
- Some countries (e.g. China) require written trademark licenses be recorded with Trademark Office
 - Important if distributor will actively promote or service products
 - Should consider using a separate license to keep distributorship terms confidential.

Trademarks versus Service Marks



BIG MAC[®] is a trademark for sandwiches

Trademarks versus Service Marks



MCDONALDS® is a service mark for restaurant services

Protection of Trade Dress

- **Taco Cabana v. Two Pesos**
- Supreme Court determined:
 - Trade Dress is The Total Image of the Business
 - Restaurant Décor is Product Packaging
 - If Product Packaging is Distinctive, no proof of Secondary Meaning is Required



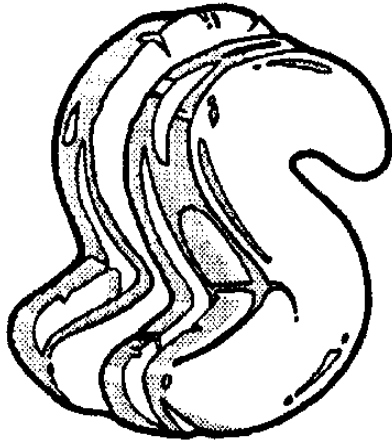
Nonfunctional Elements:
Exterior, Sign, Floor Plan,
Décor, Menu, Uniforms

Wal-Mart v. Samara

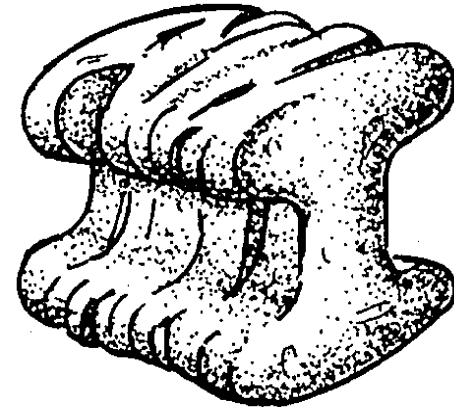
- Samara wanted Wal-Mart to stop selling clothing that looked like its line of clothing
- Wal-Mart asked court for non-infringement ruling
- Supreme Court Held:
 - product design is not inherently distinctive
 - therefore, secondary meaning must be established



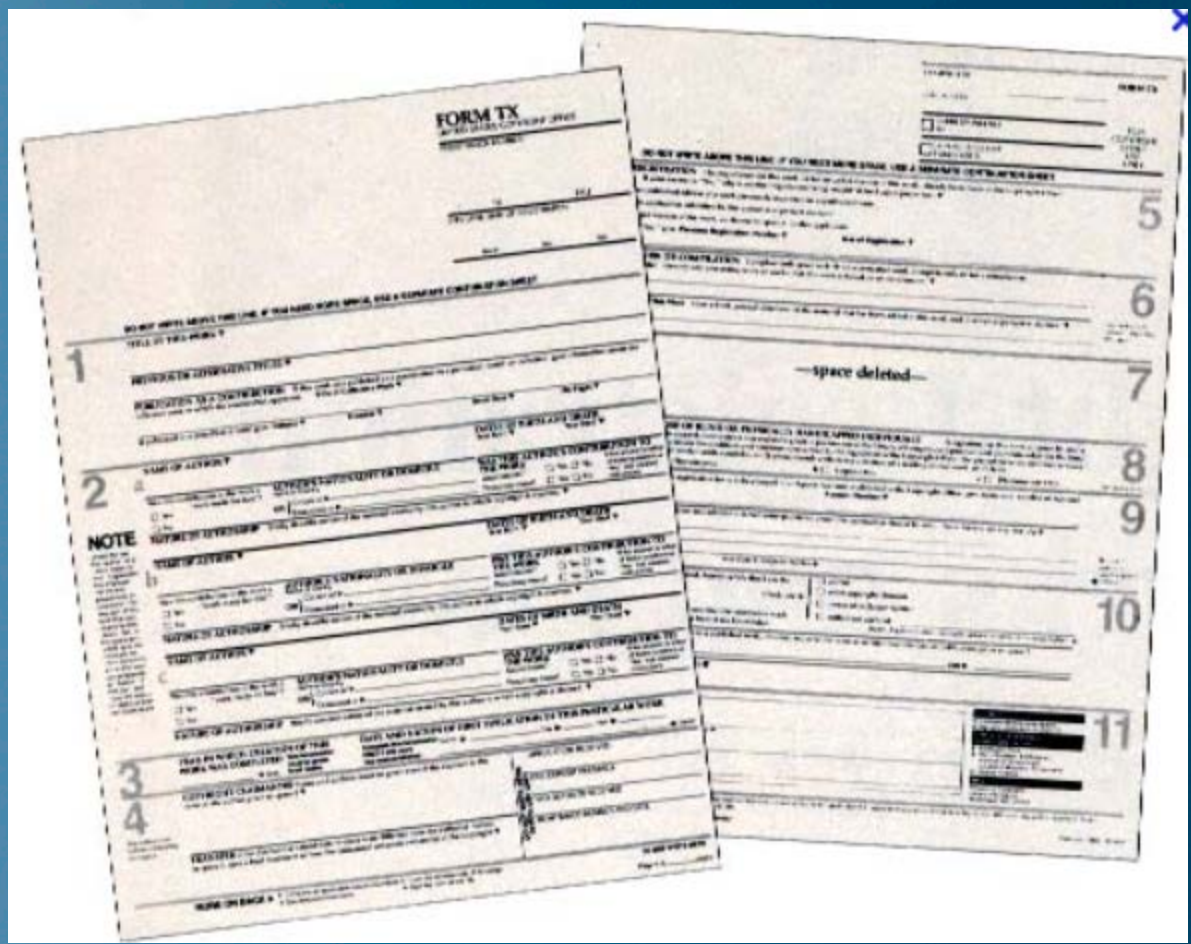
Marks versus Design Patents



Reg. No. 1,484,254,
protects the appearance of
an “S” shaped packing
peanut as a trademark.



U.S. Patent No. D 319,392
protects the appearance of
an “I” shaped packing
peanut as a patented
design.



Copyright Overview

Copyright Overview 1

- Copyrights Protect
 - Works fixed in a tangible medium of expression
 - Examples: literary, musical, pictorial, computer software, architectural works
 - that are original and creative
 - Level of creativity is low
 - Examples: White Pages telephone listing are unprotectable, but an artistic yellow page advertisement is protectable
 - A couple of lines of code may be protectable

Copyright Overview 2

- Functional aspects of a work are not protected by copyright
- Example:
 - design feature of a sink may exist apart from the function it performs



Copyright Overview 3

- An example of a copyrighted work:
 - “An artistic color pattern for an athletic uniform and fabric patches positioned thereon”



Copyright Overview 4

- A Copyright allows the owner to prevent others from
 - Reproducing (copying)
 - Creating derivative works (modify)
 - Distributing publicly
 - Performing publicly
 - Displaying publicly; and
 - Transmitting certain types of information

Copyright Overview 5

- Fair Use –
Mattel v. Walking Mountain Productions
353 F.3d 792 (9th Cir. 2003)



Copyright Overview 6

- 4 Fair Use Factors
 - The purpose and character of the use, including whether such use is a commercial nature or is for nonprofit educational purposes
 - The nature of the copyrighted work
 - highly creative?
 - The amount and substantiality of the portion used in relation to the copyrighted work as a whole
 - The effect of the use upon the potential market for or value of the copyrighted work
 - **35 U.S.C. 107**

Copyright Overview 7

- Federal rights are created the moment ideas and thoughts are fixed in any tangible medium of expression - i.e., protection is automatic when fixed.
 - **Registration is not required**
 - But, registration provides several advantages
 - allows collection of statutory damages and attorney fees
 - **A copyright notice is not required to protect the work!!!!**
 - But, use of notice negates innocent infringement defense

Copyright Overview 8

- Length of Protection: (different rules exist for many categories of works)
 - Life of the author plus at least 70 years
 - Work for hire: 95 years from publication or 120 years from creation

Trade Secret Overview

Trade Secret Overview 1

- Trade Secrets protect:
 - information
 - Typically any information (including inventions, product plans, technical specifications, strategies, costs, prices, names, finances, marketing plans, business opportunities, personnel, research information, development information, know-how, customer lists)
 - that is not generally known (i.e., it does not have to be completely unknown to be protected)

Trade Secret Overview 2

- Trade Secrets prevent others from obtaining the information through improper means
- Protection Mechanisms
 - Uniform Trade Secret Act - adopted by a large number of states (not Texas!)
 - Contract Obligations
 - Common Law

Trade Secret Overview 3

- **Trade Secret Protection exists so long as the information is not generally known**
- “Today, the recipe is locked away in a safe in Louisville, Ky. Only a handful of people know that **multi-million dollar recipe** (and they've signed strict confidentiality contracts).”
- <http://www.kfc.com/about/secret.htm>



Trade Secret Overview 4

- How to Protect Confidential Information:
- Use a non-disclosure agreement
- Confidential Information is protected by identifying it as confidential
 - Documents containing Confidential Information should be marked “Confidential”
 - Depending on the non-disclosure agreement, conversations that disclose Confidential Information may need to be followed up by a letter to the recipient confirming the confidential nature of the information

Common IP Traps

Ownership -1

Patent Ownership Issues -

- A patent is generally owned by the inventor, unless the inventor is contractually obligated to assign the invention.
 - In some instances the inventor's employer may own a non-transferable "shop right"
- In the U.S., each co-owner may
 - exercise rights under the patent without accounting to the other co-owners; and
 - any co-owner can assign or license rights under the patent without accounting for profits

Ownership -2

Copyright Ownership Issues -

- A copyright is owned by the author, unless the work is a “work made for hire”, that is:
 - a work prepared by an employee within the scope of her employment; or
 - a work specially ordered or commissioned for use as a (1) contribution to a collective work, (2) an audiovisual work, (3) translation, (4) supplementary work, (5) compilation, (6) instructional text, (7) test or answers to a test, (8) an atlas **AND** the parties expressly agree in writing that the work is considered a “work made for hire.”
- Co-owners share profits, unless otherwise agreed in writing

Ownership – 3

- Trade Secret Ownership Issues
 - Unless limited by (1) written agreements, or (2) legal obligations (such as Uniform Trade Secret Act), any person who has access to the trade secret may, without an accounting obligation:
 - use it; and
 - disclose it (thereby destroying value)
 - When “assigning” a trade secret one must carefully consider what obligations should be imposed on the assignor
 - Destruction of materials?
 - Non-compete?

Ownership – 4

Using improper assignment language may not transfer future inventions without further action

■ Present Assignment

- “will assign and do[es] hereby assign to...” *Stanford v. Roche*, 563 U.S. ____ (2011)
- “hereby conveys, transfers and assigns” (*Speedplay v. Bebob* (Fed. Cir. 2000))
- “agrees to and does hereby grant and assign” (*DBB Techs v. MLB Advanced Media* (Fed. Cir. 2008))

■ Promises to Assign

- “I agree to assign”. *Stanford v. Roche*, 563 U.S. ____ (2011)
- “shall, or shall cause . . . to Transfer” (*Abraxis Bioscience v. Navinta* (Fed. Cir. 2010))
- “will be assigned” (*Arachnid v. Merit Indus.* (Fed. Cir. 1991))

IP Transferability Issues -1

- Patent and copyright license assignment analysis is governed by federal common Law not state Law.
 - *Unarco v. Kelley Co.*, 465 F.2d 1303, 1306 (7th Cir. 1972). *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 679 (9th Cir. 1996) *Cincom Systems v. Novelis Corp.* (6th Cir. 2009) 581 F.3d 431.
- There are “limited . . . situations where there is a significant conflict between some federal policy or interest and the use of state law” that require “judicial creation of a special federal rule” of common law. *O’Melveny & Myers v. Fed. Deposit Ins. Corp.*, 512 U.S. 79, 87 (1994).

IP Transferability Issues -2

Licenses are generally considered personal to the licensee and not assignable unless expressly stated so in the agreement.

- Allowing the free assignability of patent and copyright licenses would “undermine the reward that encourages invention.” *Id.* This is because any entity desiring to acquire a license could approach either the original inventor or one of the inventor’s licensees. *Cincom Systems v. Novelis Corp.* (6th Cir. 2009) 581 F.3d 431.

IP Transferability Issues -3

Reverse triangular mergers may violate anti-assignment clauses

- *SQL Solutions, Inc. v. Oracle Corp.*, 1991 WL 626458 (N.D.Cal., December 18, 1991) holding that a software license held by the surviving entity in a reverse triangle merger was improperly transferred as the licensee went through a fundamental change in its form of ownership
- *Meso Scale Diagnostics, LLC v. Roche Diagnostics GmbH*, C.A. No. 5589-VCP (Del. Ch. Apr. 8, 2011), Court refused to grant a motion to dismiss wherein it was alleged that a reverse triangular merger violated a contract clause prohibiting assignment of the contract by operation of law.

Using the “Proper” words in a license grant

- Patents:
 - 35 U.S.C. §271(a): make, use, sell, offer for sale, and import.
 - Export and Import issues in §271 (f)(1), (f)(2), and (g)
 - Copyrights – §106 - reproduce, prepare derivative works, distribute, perform, display and transmit
 - Digital Millennium Copyright Act – circumvention
 - Uniform Trade Act: Access, Use & Disclose
 - Trademarks are more fuzzy: "use"
- Licensee Solution: consider using the catch all phrase "and otherwise practice any rights"**

Not Using a Confidentiality Agreement

- Some courts have ruled that in the absence of express confidentiality obligations, a confidential relationship doesn't exist between a licensor and a licensee. See *Seatrax, Inc. v. Sonbeck Int'l, Inc.*, 200 F.3d 358 (5th Cir. 2000).

Perpetual Irrevocable Licenses

- *Nano-Proprietary Inc. v. Canon Inc. et al.*, Case No. 07-50540 (5th Cir., July 25, 2008)
 - Licensee was granted a "perpetual" "irrevocable" patent license
 - Licensee violated agreement by granting sublicense
 - 5th Circuit reversed district court decision that agreement was terminated due to a "material breach" by the licensee
- **Drafting Tip:** Explicitly identify the grounds, if any, under which the "perpetual" license can be terminated

Indefinite Term Licenses

Trient Partners I Ltd. v. Blockbuster Entertainment, Inc., 83 F.3d 704 (5th Cir. 1996)

- License Agreement was to “continue indefinitely ... until terminated in accordance with the provisions hereof.”
 - Agreement allowed termination for: non-curable defaults, bankruptcy, death, or improper transfer.
- Court concluded that termination provision was a “mere transcription” of the universal rule that contracts are terminable upon a material breach and that the four termination conditions “do not limit the duration of the License Agreement or make its duration determinable in any real or concrete way.”
- Because the license agreement “(1) expressly state[d] that it will ‘continue indefinitely,’ and (2) [wa]s confined in time only by ‘termination provisions’ which contain conditions that are likely never to transpire,” the contract was of indefinite duration and therefore terminable at will.

Damage Exclusion Clauses

Piper Jaffray & Co. v. SunGard Systems International, Inc., No. 04-2922, 2007 U.S. Dist. LEXIS 11399 (D. Minn. Feb. 16, 2007).

- Consequential damage exclusion clause in software license limited the software owner's copyright infringement claims arising from the customer's unlicensed use of the software following termination of the license agreement.
- Court rejected the argument that the copyright infringement claim arose outside of the agreement and was therefore not limited by the consequential damage exclusion clause contained in the license agreement.
- Court held that since the software company was seeking indirect damages based upon the customer's unlicensed use of the software, such damage claims were barred by the agreement's prohibition on consequential damages.

Bankruptcy Issues

- U.S. Bankruptcy Law 365(n) provides protection to licensees
 - If licensor goes bankrupt, licensee can continue using rights
- Escrow Issue: U.S. Bankruptcy Law likely prohibits exercise of springing license grant
- Potential Solutions
 - Letter of Credit
 - Security Interests
 - Bankruptcy Remote Vehicles
 - Escrow (with present grant of rights to use materials upon release)

Online IP Issues

Domain Name Selection

- Anticybersquatting Consumer Protection Act of 1999
 - Authorizes action if:
 - Identical or confusingly similar domain name
 - Registration, use, or trafficking; and
 - Bad faith intent to profit.
 - Authorizes statutory damages of up to \$100,000 per domain name.
- ICANN Uniform Dispute Resolution Policy
 - Arbitrator may transfer or cancel domain name when:

www.aolsucks.com



Censorship - Poor Service
- Legal Threats
Security - Spam - Mailing
List

America Online is the largest Internet provider in the world, but it didn't become one without a fight. Originally a closed-in, proprietary online service, it was pried open by the public's fascination with the global network. For all of the company's past glory, it is now little more than a big communications company.

America Online wants to be more than a communications company, though -- it wants to be

PETA.ORG





EROTICA
Terri Welles

PLAYBOY PLAYMATE OF THE YEAR 1981

Take The Tour and Join Me Inside

FREE TOUR

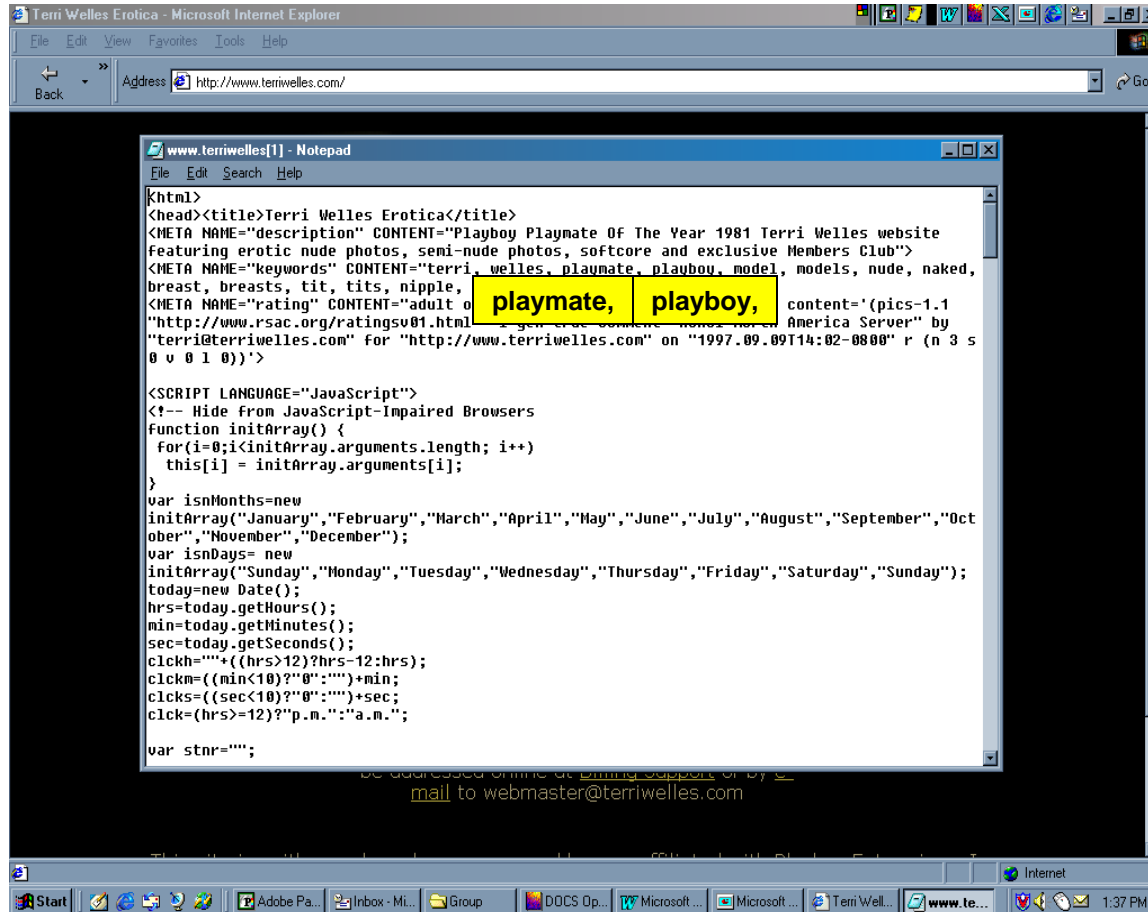
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Billing questions, cancellations and Inquires can
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to webmaster@terriwelles.com

Playboy Playmate



Meta-Tags

- Brookfield v. West Coast Entertainment
 - Use of the trademark “MovieBuff” in a meta-tag script causes “initial interest confusion”
 - Momentary confusion is sufficient to justify a finding of trademark infringement
- Playboy v. Terri Welles, Inc.
 - Use of “Playboy” and “Playmate” names in meta-tag script was **not** trademark infringement.
 - Descriptive use does not equal use as a trademark.
 - Prominent display of disclaimers defeats claim of infringement

Key-Word Buys

- Several recent lawsuits have been filed in light of Google key-word advertising policy
 - Some decisions generally permit key-word buys, See, *Network Automation v. Advanced Concept Systems, Inc.* (9th Cir. 2011)
 - Others do not. See, *CJ Products LLC V. Snuggly Plushez LLC*, 2011 WL 3667750 (E.D.N.Y. Aug. 22, 2011) (court enjoined defendant from buying advertising for key word “Pillow Pets”)

Linking and Framing -1

- Links & Framing
 - Copyright Issues
 - Trademark Issues
 - Permissions

Total News

The screenshot shows a Netsite browser window with the address bar displaying <http://www.totalnews.com/>. The browser's navigation bar includes buttons for "What's New?", "What's Cool?", "Destinations", "Net Search", "People", and "Software".

The website content is organized into several sections:

- Left Sidebar:** A vertical list of news sources: FOX News, MSNBC, CNN Interactive, ABC News, CBS, USA Today, NPR, Yahoo! news, The Nando Times, and TIME Daily.
- Top Navigation:** "Dispatches" (with a sub-link "ABC bureaus around the globe") and "search".
- Main Content Area:**
 - Logo for "ABCNEWS.com" featuring a globe.
 - Section: "News Now Summary" dated "Monday, May 19".
 - Headline: "Clinton Favors China Trade" with a sub-headline "China's most-favored-nation trading status will be renewed, President Clinton said today, rejecting complaints about the country's human rights record." and a small photo of President Clinton.
 - Right-side box: "YOUR WEATHER" with a "CLICK TO REGISTER" link.
 - Another right-side box: "ABCNEWS.com" with the text "Click for a quick, up-to-the-minute summary of today's top headlines" and a dropdown arrow.
- Bottom Navigation:** A menu with categories: WORLD, U.S., BUSINESS, ESPN SPORTS, MR. SHOWBIZ, SCI / TECH, NEWS TO USE, WEATHER, and GALLERY.
- Footer:** Includes a "back to TOTAL NEWS" button, an advertisement for "ALTAVISTA OnSite Computing" with the text "GOT WINDOWS NT? GET THIS... FREE SOFTWARE CLICK HERE", and a "TotalNEWS" logo.

Linking and Framing -2

- Types of Hypertext links that can create legal issues
 - Linking page uses text or images from the linked page that are protected by trademark or copyright - unless fair use applies
 - Linking Page links to an internal page rather than the “home page”
 - Ticketmaster v. Microsoft
 - Linking Page links to a page that contains defamatory material or displays infringing works
- Use of Thumbnails is “fair use” Kelly v. Arriba Soft Corp, 2002.
 - “fair use” is “fair use” even when copying is involved

Privacy Issues

U.S. Privacy - 1

- U.S. Approach
 - No comprehensive data protection laws
 - Commercial use of personal data unrestricted, unless covered by
 - A sector specific law (HIPAA, GLB, FCRA)
 - A law targeting a specific harm
 - COPPA, restrictions on use of SSNs
 - A contract or privacy promise
 - Identity theft is the biggest concern

U.S. Privacy - 2

- **Exemplary Federal Statutes and Regulations**
 - Fair Credit Reporting Act -- 15 U.S.C. § 1681
 - Gramm-Leach-Bliley Act -- 15 U.S.C. § 6801
 - Health Insurance Portability and Accountability Act -- 42 U.S.C. § 1320a
 - Federal Trade Commission Act -- 15 U.S.C. § 1681
 - Electronic Fund Transfer Act -- 15 U.S.C. §1693
 - Right to Financial Privacy Act -- 12 U.S.C. §1384
 - Children's Online Privacy Protection Act -- 15 U.S.C. §§ 6501- 06
 - Electronic Communications Privacy Act -- 18 U.S.C. §2701 et seq.
 - Federal Wiretap Act -- 18 U.S.C. §2510 et seq.
 - Computer Fraud and Abuse Act -- 18 U.S.C. §1030 et seq.
 - Communications Decency Act -- 47 U.S.C. 230

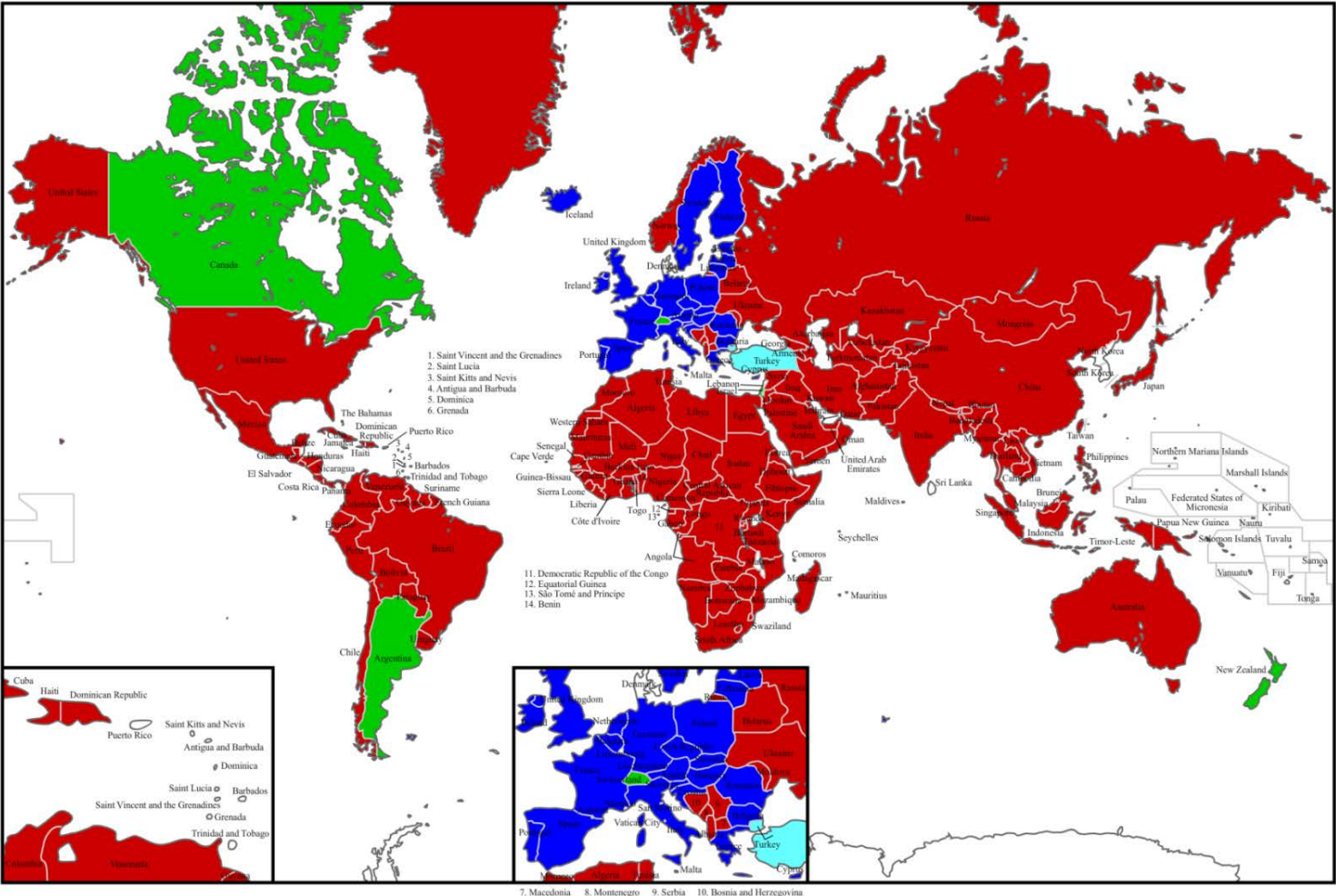
U.S. Privacy - 3

- **State by State Regulation**
- Laws vary by state, and may include:
 - Deceptive Trade Practices Act
 - Electronic Eavesdropping Act
 - Anti-Harassment Act
 - Right to Privacy Statutes
 - Industry-specific statutes, e.g. insurance, medical records, banks, human resources or personnel records, and others
 - Several States are implementing new laws on a frequent basis

U.S. Privacy – 4

- **Exemplary California Notification Law**
 - Applies to persons and businesses conducting business in California who own computerized data containing personal information.
 - Must inform any resident in California of a security breach in which that person's personal information is reasonably believed to be disclosed to an unauthorized person.
 - Notification must be made in the “most expedient time possible and without unreasonable delay,” except where law enforcement authorities request delay.
 - Allows private rights of action

EU Restrictions on Data Transfer



EU Data Protection Laws -2

- EU Data Protection Laws Issues
- Rule: Data must not be transferred to countries outside the EU that do not offer an “adequate level of protection”
 - Currently only: Andora, Argentina, Canada, Faroe Islands, Guernsey, Isle of Man, Israel, Jersey, New Zealand, Switzerland, Uruguay.
- Exceptions:
 - ask permission from every “data subject” involved
 - for US - Dept. of Commerce “safe harbor” registration
 - EU model contract clauses
 - “Binding Corporate Rules”

EU Data Protection Laws -3

- Legislation makes fundamental distinction between:
 - **data controller**: party that defines the purpose and the means of processing the data
 - **data processor**: the party performing the tasks
- Data controller is liable towards the “data subjects”
- Data controller is obligated to select appropriate data processors, and must obtain adequate contractual protection from them

EU Data Protection Laws -4

- EU law will apply when:
 - A “controller” is located in its territory; or,
 - When a “controller” outside the EU uses “equipment” within the EU territory
- Applied to cloud computing:
 - using an EU-based data center triggers legal compliance obligation
 - Many authorities interpret “equipment” in an extremely broad way (e.g., browser cookies)

Privacy Policies

- Recommended elements
 - notice of information collected and how it will be used
 - use of data solely for the purpose for which it was collected
 - choice as to how information will be used beyond the stated purpose
 - security of data
 - access to data
 - opportunity to correct

Acceptable Use Policy

- Designed to protect company
 - from liability arising from use of its website
 - from inappropriate third party use of intellectual property assets on company website
 - from third party liability (claims arising from bulletin boards)

International Overview

Practical International Thoughts

- Assume nothing
- Due diligence is key – investigate the local law, the other party and applicable U.S. law
- Self help protection first, legal protection second
 - Arbitration over litigation
- It's not enough to know the law
 - **PSCHITTT GEL** - hair styling preparations
 - **NOVA** - “won't go” in Spanish
- Terminate softly
- It will take 3 times longer to do an international deal

Common Forms of Int'l Transactions

- Manufacturing Agreements
- Distributor Agreements
- Sales Rep Agreements
- License Agreements
- Franchise Agreements
- Contracting through foreign subsidiary
- Joint Ventures
 - Contractual Alliance
 - Formation of jointly owned separate legal entity

Due Diligence on Other Party

- Financial
- Ethical
- Quality
- Public Officials

Due Diligence on Foreign Country -1

- Exchange Controls (Products & Cash)
- Registration Requirements
- Intellectual Property Protection
- Taxes
- Visas
- Antitrust/Competition Laws
- Other Laws (examples)
 - Language Requirements
 - Waste Disposal Laws
 - Company Ownership Restrictions
 - Required Investments (china)
 - Competition Laws

Due Diligence on Foreign Country -2

- Political Risks
 - Stability of Country
 - Risk of Nationalization
 - Risk of Surrounding Repatriation
- Tax Issues
 - Stamp Taxes and Transfer Taxes
 - Permanent Establishment Taxes Based on Transaction Structure

Due Diligence on Applicable U.S. Laws

- U.S. Export Controls
 - Export Administration Act
 - Arms Export Control Act
 - Foreign Corrupt Practices Act
 - Patriot Act
 - Committee on Foreign Investment in the United States (CFIUS)
- Foreign Corrupt Practices Act
- Anti-Boycott Law
- Other Laws



Legal Counsel to Great Companies

Export Control

What are Export Control Laws?

- Various Federal laws and regulations require agency approval before the export of “controlled” items, commodities, technology, software or information to “restricted” foreign countries, persons, and entities.
- US Government Viewpoint
 - Exporting is a privilege, not a right
 - Activity cannot take place until an export license is obtained or it is determined that a license is not necessary
 - Every situation is unique
 - Ignorance is not a defense

Why do we care about Export Control Laws? -1

- Certain export control laws may apply to a company's activities here and abroad.
- Failure to comply with export control laws may result in adverse publicity, serious criminal and civil penalties for the company and its employees
- The U.S. Government has increased enforcement and investigations activities after September 11.

Why do we care about Export Control Laws? -2

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DENVER AND THE WEST

Lafayette instrument maker charged with exporting military items

PRINT EMAIL

By Felisa Cardona
The Denver Post

POSTED: 03/18/2010 01:00:00 AM MDT
UPDATED: 03/18/2010 09:16:46 AM MDT

A Lafayette company was charged Wednesday with exporting military optical prisms and technical data to Turkey, South Korea, China and Russia without authorization from the State Department, according to the Colorado U.S. Attorney.

The Rocky Mountain Instrument Co. is accused in U.S. District Court in Denver of exporting the products without first obtaining a license from the State Department. The prisms and other data are items on the United States Munitions List of military defense products that companies are not allowed to export to foreign countries.

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The two categories of controls (not mutually exclusive)

1. Examples of control list-based controls (product driven)
 - U.S. Munitions List – International Traffic In Arms Regulations (ITAR)
 - Commerce Control List – Export Administration Regulations (EAR)
 - Schedule of Chemicals in the EAR
 - Nuclear Equipment Materials List
2. Activity-based controls (activity driven)
 - EAR General Prohibitions (e.g. proliferation activities WMD)
 - Anti-Boycott Regulations
 - Prohibited Parties Lists
 - Trade Embargoes and Economic Sanctions (OFAC)

What is an Export?

- An export is the release or dissemination of any item or information from the United States to:
 - Anyone outside the U.S., including U.S. citizens; or
 - “Foreign Nationals” inside or outside the United States
- Note that some items and information are excluded from some (but not all) provisions of the export control laws (e.g. information generally available to the public, artistic publications)

Who is a Foreign National?

- A person who is not:
 - A U.S. citizen;
 - A permanent U.S. resident, having a permanent residence card (i.e., a “Green Card”); or
 - A “protected person” under 8 U.S.C. 1324b(a)(3), e.g., political refugees, political asylum holders, etc.
- Foreign Nationals include persons such as: (i) foreign: students, business people, corporations, trusts, (ii) any other group not incorporated or organized to do business in the United States, and (iii) any international organization, foreign government, or diplomatic entity.

What is Technology?

- **Information necessary for the development, production or use of a “controlled good”**
 - **Technical Data:** blueprints, diagrams, specifications, plans, instructions/manuals, engineering designs, tables, or formulae written or recorded on other media or devices such as disk, tape, read-only memories
 - **Technical Assistance:** Consulting, instruction (including presentations at seminars), skills, training, working knowledge

Exports can Take Different Forms

- Hardware:
 - Physical export from the United States
 - Transfer to foreign persons located within the United States
- Software:
 - Physical export - shipping disks abroad or to foreign persons
 - Emailing programs
 - Permitting downloads from a website

Exemplary Transactions subject to Export Control Laws

- Direct export of a controlled item/technology/information
- Foreign national access/use of controlled item
- Foreign travel to a restricted country
- International and domestic collaborations
- Publications (that are not generally accessible to public)
- International and domestic presentations at conferences
- Conversations involving controlled technology
- Taking or shipping a controlled item out of the U.S.
- Exports of technology/information
- Provision of services to restricted individuals
- Investing in or entering into contracts involving embargoed countries

EAR – Ten Specific Categories

1. Nuclear materials, facilities, equipment research (delegated to NRC)
2. Chemicals and toxins
3. Materials processing, i.e., making plastics, metals
4. Electronics development
5. Computer development and programs
6. Telecommunications
7. Information security (encryption)
8. Sensors and lasers
9. Navigation and avionics
10. Propulsion systems and space vehicles

What is “subject to the EAR”?

- any item (U.S. or foreign) in the U.S. or in transit through the U.S.
- any U.S. origin item anywhere in the world
- any U.S. origin part, component or material which is in a foreign item in a quantity exceeding certain de minimus levels
- certain foreign origin items which were made using controlled U.S. origin technology/software in quantities exceeding certain de minimus levels and are for shipment to certain places (currently Cuba, Libya and D1 countries)
- certain items produced by a plant located outside of the U.S. that is a direct product of controlled U.S. origin technology/software and are for shipment to certain places (currently Cuba, Libya and D1 countries)

ITAR Munitions Control List (“MCL”)

- Firearms
- Artillery projections
- Ammunition
- Launch vehicles, guided missiles, ballistic missiles, rockets, torpedoes, bombs & mines
- Explosives, propellants & incendiary agents
- Vessels of war & special naval equipment
- Tanks & military vehicles
- Aircraft & assoc. equipment
- Military training equipment
- Protective personnel equipment
- Military electronics
- Fire control, range finder, optical & guidance & control equipment
- Auxiliary military equipment
- Toxicological agents & equip. & radiological equip.
- Spacecraft systems & equipment
- Nuclear weapons design & test equipment
- Submersible vessels, oceanographic & associated equipment
- Misc. articles

ITAR MCL – Exemplary Equipment

- Example 1: Vaccines, antidotes and medical diagnostics specifically designed to protect against or counter chemical and biological warfare agents
- Example 2: Powerful explosives, propellants and incendiary agents (including, e.g., propellants having a force constant of more than 1,200 kJ/Kg)
- Example 3: Global Positioning System (GPS) that can operate at speeds in excess of 515 m/sec (1,000 nautical miles/hours) and at altitudes in excess of 18 km (60,000 feet) or designed or modified for use with unmanned air vehicles

Office of Foreign Assets Control ("OFAC") Regulations

- **Balkans**
- **Belarus**
- **Burma (Myanmar)**
- **Cote D'Ivoire**
- **Cuba**
- **Diamond trading**
- **Drug trafficking**
- **Iran**
- **Liberia**
- **North Korea**
- **Proliferation**
- **Sudan**
- **Syria**
- **Terrorist Organizations**
- **Terrorists**
- **Zimbabwe**

OFAC: Comprehensive Sanctions

- Applicable to Cuba, Iran and Sudan
- In general, the following are **prohibited** under **comprehensive** sanctions programs:
 - Exports (direct or indirect)
 - Imports (direct or indirect)
 - Trade brokering, financing or **facilitation**
 - Any attempt to evade or avoid the sanctions
- Applies to most goods, technology & services
- Limited exceptions may be available from the OFAC, such as agricultural goods or humanitarian items

OFAC: Limited Sanctions

- North Korea
 - Importation of items of North Korean origin are restricted.
 - Assets of certain persons blocked.
- Burma (Myanmar)
 - Importation of items of Burmese origin is prohibited.
 - Ban on export of financial services.
 - Specific entities are blocked.
 - Exports to Burma are not prohibited, but transactions must comply with export control rules and the prohibitions regarding financial services.
- Syria
 - Ban export of US-origin goods.
 - Requirement to block assets of entities and individuals related to terrorism, WMD, undermining reconstruction in Iraq & assassination of Prime Minister Harari.
- Diamond Trading
 - Import and export of rough diamonds restricted.

Exemplary List-Based Sanctions

- **Balkans** – block property of Milosevic supporters
- **Belarus** – block property of persons undermining democratic process
- **Drug Traffickers** – no dealings with designated traffickers
- **Iraq** – sanctions lifted, but assets previously blocked remain blocked
- **Liberia** – block property of Charles Taylor and his supporters; no imports of Liberian timber
- **Zimbabwe** – block property of persons undermining democratic process
- **Proliferation** – no dealings with persons involved in proliferation of weapons of mass destruction
- **Terrorism** – no dealings with persons or organizations involved with terrorism

Export Control Lists to Check

- There are seven lists of prohibited end-users:
 - Department of Commerce's Denied Persons List
 - Department of Commerce's Entity List
 - Department of Commerce's Unverified List
 - Department of Commerce's General Order 3 to Part 736
 - Department of the Treasury's List of Specially Designated Nationals and Blocked Persons
 - Department of State's Debarred Parties List
 - Department of State's Nonproliferation List
- The lists are available at:

<http://www.bis.doc.gov/ComplianceAndEnforcement/ListsToCheck.htm>

When is a License Required prior to Export? -1

- Need the following facts:
 - What is the export classification control number (ECCN)?
 - Where is the item going?
 - Who will receive it?
 - What will they do with it?
 - What else do they do?

When is a License Required prior to Export? -2

- Even if the product/information doesn't require an export license based on its ECCN classification, a license may still be required if the product/information will be used:
 - By a prohibited individual
 - For a prohibited use
 - By a prohibited country

Laptop Issues -1

- A laptop computer is generally an exception to the EAR and ITAR lists of controlled items/equipment
- Use good practice when hand-carrying a laptop computer to a foreign country
- The laptop:
 - Must remain in exclusive control of the person(s) responsible for it at all times
 - Must not be used by anyone in the foreign country

Laptop Issues - 2

The laptop computer exception is not automatically allowed

- A license is required when a laptop with controlled research data or encrypted/proprietary software is hand-carried or shipped abroad to a restricted country and/or to a denied person/entity
 - For example: A laptop being hand-carried to any country with research data on a “genetically modified organism” will currently require a license
 - “Genetically modified organisms” are controlled items for chemical, biological and anti-terrorism reasons and there are no applicable license exceptions

Does an Export Control Issue Exist?

- Common situations which implicate export controls issues:
 - collaborating or contracting with a foreign national
 - sending information to a foreign country or citizen
 - foreign travel
 - work involving technology or devices for use in military, security and intelligence
 - work that involves a substantial or dual-use military application
 - software or products that utilize encryption

Foreign Corrupt Practices Act ("FCPA")

Recent FCPA Headlines

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With Wal-Mart Claims, Greater Attention on a Law

By CHARLIE SAVAGE

Published: April 25, 2012

WASHINGTON — A decade ago, the Foreign Corrupt Practices Act, which bars American companies from bribing officials overseas, was rarely enforced or discussed. Today, it strikes fear throughout the executive offices of companies with overseas operations, generating huge fees for law firms and large fines for the federal government.

-  FACEBOOK
-  TWITTER
-  GOOGLE+
-  E-MAIL
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FCPA: Purpose and Background -1

- Prohibits bribery of foreign officials by U.S. firms and U.S. citizens to obtain an improper business advantage
- FCPA was a reaction to a series of U.S. scandals in the 1970s and was designed to restore public confidence in the integrity of U.S. business
- For years, the U.S. was the only country to prohibit bribes to foreign government officials

FCPA: Purpose and Background -1

Numerous other countries have now passed similar laws:

- In November 1997, the OECD group that has grown to 38 participating countries passed the OECD treaty
- The U.N. Convention Against Corruption also entered into force in December 2005 and more than 75 nations have ratified the Convention which mandates that signatories criminalize bribery of domestic and foreign officials

FCPA's Two Provisions:

- **Anti-bribery prohibitions**
 - DOJ enforces the anti-bribery provisions
 - Prohibits giving anything of value to "a foreign government official" in order to gain a business advantage
- **Accounting provisions**
 - Enforced by SEC
 - Requires U.S. companies (and others) to maintain accurate books and records, to report transactions in reasonable detail and to have adequate internal controls over accounting records and assets

Anti-Bribery Provisions

- **Prohibited conduct:**
 - Payment (or offer or promise to pay)
 - Money (or anything else of value)
 - To a foreign government official
 - With corrupt intent
 - Directly or indirectly
 - To obtain or retain an improper business advantage

Foreign Government Officials

- Foreign government official includes:
 - State-owned enterprises ("SOEs")
 - An officer or employee of a State instrumentality
 - Municipal corporations
- In addition to foreign government officials, this term also includes:
 - Foreign political parties
 - Foreign political party officials or candidates
 - Public international organization officials
- A private person acting in an official capacity for a government instrumentality is considered a foreign official
- Payments made to private persons are not prohibited the FCPA, but may violate local bribery laws and the U.S. Travel Act

"Directly or Indirectly"

- U.S. company liable for payment through third party (agent, sales representative)
- Knowledge
 - Clearly exists when company has actual knowledge
 - Constructive knowledge—awareness of a high probability FCPA is being violated by foreign agent
- Many FCPA violations occur based on indirect payments through a consultant or sales representative

Obtaining or Retaining Business

- A bribe paid to advance a business purpose satisfies the FCPA
- U.S. DOJ basically assumes that anything offered to a government official will be for a business purpose

Manufacturing, Sales and Distribution Agreements

Strategic issues to consider when
negotiating agreements around the
world

Agenda

- Pre-Contract Issues
 - Common negotiating problems
 - Structuring the deal
- Channel selection issues
- Important contract provisions

Structuring the Deal

Common Negotiating Problems -1

- **Contracts often do not address all of the parties' expectations**
 - Why? Because the parties don't articulate their expectations ...or know their expectations
 - You cannot allocate risks and obligations until you understand them

Common Negotiating Problems -2

- **Getting Lost in the Negotiations**
 - Too many people negotiating the contract.
 - Rapid turnover of contract drafts.
 - “Email Flurry”
 - Solution:
 - Need to step back and digest what has been agreed to...and what has not
 - Need good, clear communication within your company
 - Who is assigned the task of keeping track of the deal points?

Common Negotiating Problems -3

■ Language Issues

- In many countries, English is often better spoken than understood
- If you do not speak the language well, it is important to use professional interpreters and translators
 - Always have your own interpreter

Common Negotiating Problems -4

- **Common China Issues**
 - Nothing is ever black or white
 - Chinese often prefer “grey”
 - often no rules or regulations
 - It is important to understanding the Chinese culture, but culture is sometime used as a negotiating tactic
 - The concept of “Face” is important
 - Negotiations can be extremely difficult
 - Important to be firm, polite, but prepared to say no
 - Negotiations are often slow and protracted (and may be split between groups) -- Need to maintain patience
 - Contracts and activity move quickly once decisions have been made

Purposes of a Written Agreement -1

- Records agreement of the parties
- Creates rights -- starting point in a dispute
- Focuses attention of the parties at the outset
- Important part of building relationship
- You might *have* a binding agreement even *without* a writing (course of dealing; exchange of forms; E-Sign/UETA issues)
 - you may not like the terms
- NOTE: You might *not have* a binding agreement even *with* a writing (public policy, protective laws)
 - typically in international jurisdictions
- Legal issues arise in managing your relationships – e.g., parallel imports

Purposes of a Written Agreement - 2

- **Gaps in contracts:**
 - are filled by gap-filling laws and principles (which themselves may contain gaps)
 - can and should be detected... before they develop into business and legal problems
 - can and should be avoided...

Structuring the Deal -1

- What are you buying/selling?
- Does it exist already, or does it need to be developed?
- Are there clear specifications for the product?
- If the specifications don't exist, Phase I should be to create them
- Consider reserving the right to accept the specs, and to terminate the contract at end of Phase I

Structuring the Deal -2

Specifications

- Understand what the product/software/service can do...and not do
- Specifications are the basis of your warranty and any acceptance test
- Must be detailed, thorough and complete
- Do they cover all of the functions that are supposed to be delivered?
- Are the specifications Ambiguous? Too general?

Structuring the Deal -3

Limiting Risk - Buyer

- **As Buyer, limit your risk by:**
 - Defining specifications
 - Requiring acceptance test where appropriate
 - Insisting on clear warranties
 - Getting consequential damages (very difficult)
 - Avoiding damage limitations, or making them realistic
 - Know the deal

Structuring the Deal -4

Limiting Risk - Seller

- **As Seller, limit your risk by:**
 - Defining specifications
 - Disclaiming warranties
 - Disclaiming consequential damages
 - Limiting the dollar amount of damages
 - Applying these limitations to any type of claim Buyer might bring

Negotiating Tactics

- Everything is negotiable, unless it's not (e.g., required by law issues)
- Know your “hot button” issues – say no early if you need to
- Know the other side's hot button issues
 - Bring them up early!
- Keep track of where you are in list of points
- Clearly state your demands and your replies – don't move the goal posts
- Be prepared to walk away!

Channel Selection

Indirect, Direct and the Internet

Indirect Channels

- Shift distribution, marketing and negotiation costs to distributor
- Extend reach
- Obtain local expertise (particularly important in international deals)
- May provide for quicker growth opportunities
- May shift export and other international burdens to distributor
- May simplify tax issues
- May protect company from foreign jurisdiction

Direct Channels

- Better control over marketing and distribution
- Increased marketing costs
- May be more profitable
- Avoid many distribution costs (particularly direct distribution over the internet)
- Provides a direct relationship with Customers
- May mitigate risk of returns of unsold inventory from the distribution channel
- May complicate sales tax issues
- Likely to subject company to foreign jurisdiction
- Beware of EU Channel Conflicts!

Gray Market Issues -1

- Intertwined with Patent and Trademark Exhaustion
 - Exhaustion doctrine prevents trademark and patent owners from controlling downstream activities based on their intellectual property rights
 - May be able to use contract restrictions

Gray Market Issues -2

■ Exhaustion

- Generally, a trademark or patent holder may no longer control branded goods after releasing them into the stream of commerce.
 - Trademark law will not allow a trademark owner to prevent the sale of genuine goods bearing a true mark even though the sale is not authorized by the trademark owner.
 - A distributor who resells branded goods without change is not an infringer and thus needs no license.

Sales Agent vs. Distributor

- Sales Agent
 - broker-type intermediary
 - does not own the goods they sell
 - compensated by commission
 - can bind the manufacturer to contracts
- Distributor
 - buys for own account
 - takes title to goods
 - compensated with margin on resale
- May arise from other arrangements -- e.g., joint development agreement, OEM agreement

Issues as to Agents

- Can they be considered employees?
- Must the agreement be in writing?
- Can the sales representative handle competing products during the representation?
- Can the sales representative use sub-agents on own initiative?
- Does sales representative receive commissions on sales in the territory, even those made by principal?
- When must commissions be paid?
- Can there be a post-termination period of non-competition?
- Choice of law clause – Can non-EU law be selected? (No)
- Arbitration as a solution to conflicts ? (Probably not)

Issues as to Distributors (Freedom of Contract)

- Competence, especially if regulatory approval required
- Can they be considered sales representatives?
 - Yes, if fully integrated into principal's business and principal becomes aware of distributor's customer list
- Must agreement be in writing? (Generally no)
- Competing products?
- Post-termination non-competition clause
- Choice of law: can choose non-EU law (Warning: Belgium) -- evaluate whether that is a good idea
- Arbitration as a solution to conflicts? (Probably not)

Distributor and Agent Termination Issues

- Typically a more significant issue abroad
- Sales Agents: EU Directive 86/653 (Severance Compensation payable)
- Distributors: Freedom of Contract
 - But, local laws may apply - (e.g. Belgium)

Termination of Non-U.S. Sales Agents

- EU law will apply
- Termination notice period generally
 - One month per year
 - After 5 years, 6 months
- Termination compensation (“indemnity”) of average annual commission based on last 5 years
- Alternative compensation (an alternative in UK and some other jurisdictions)

Termination of Non-U.S. Distributors - 1

- Termination notice period
 - contractual, but best practice to allow as long as for Sales representatives.
 - possible damages if “reliance” can be shown.
- Occurs without compensation, except
 - in Belgium or
 - when relationship too similar to that of sales representative
- Are market disturbances after termination a concern?
 - repurchase inventory?
 - reclaim IP rights?

Termination of Non-U.S. Distributors - 2

- Does the business relationship need to be retained in another form?
- Terminate softly
 - Maintain (as) good (as possible) relations
 - The “ex” had extensive contacts with your current and future customers;
 - The “ex” is still in the marketplace can create “headwinds”
- Enforce post-termination noncompetition where necessary

Important Contract Provisions

“Give Me Your Standard Agreement...”

- Don't assume the contract will be enforced as it is written
- Various legal issues will need to be addressed:
 - Warranty, installation policies, order and acceptance, shipping documents, trademark registrations, product liability, regulatory issues
- Get advice on the impact of foreign laws
- Conclusion: *there is no one size fits all agreement*

It is Important to Use Precise Language -1

“Bimonthly”

adjective

1. Occurring every two months.
2. Occurring twice a month: semi-monthly

adverb

1. Once every two months.
2. Twice a month: semi-monthly

It is Important to Use Precise Language -2

- “Service Fees will be paid bimonthly.”
- Avoid ambiguity – say what you mean:
- “Service Fees will be paid on the 1st and 15th of each month.”
- “Service Fees will be paid on the first day of every second month.”

It is Important to Use Precise Language -3

- **Another Example:**
 - “A must consult with B before selling widgets to any third party” ...
 - What does this mean?
 - Is it enough that A just asks the advice or opinion of B?

It is Important to Use Precise Language -4

“Consult:”

1: to have regard to: consider

2 a: to ask the advice or opinion of

<*consult* a doctor>

b: to refer to <*consult* a dictionary>

From: Merriam-Webster Dictionary, <http://www.m-w.com>

It is Important to Use Precise Language -5

“Consult:”

1. to ask the advice or opinion of
2. to seek permission or approval from
(a person) for proposed action

From: Oxford English Dictionary

It is Important to Use Precise Language -6

- Where are problems likely to arise?
- Dates
 - “10/11/07”
 - Is the month or day first?
- Currency Amounts
 - “1.500”
 - Is it one point five or one thousand five-hundred?
 - “1.500 thousand”
 - Is this fifteen hundred or one million five hundred thousand?

Whose Law Applies?

- It depends...
 - on the contract
 - on the choice of law, the place of business of the parties, the parties' intent, the scope of the contract, the issues to be resolved, etc.,
 - the governing law is certainly not always the buyer's!
- Your contract should never be silent on the choice of law!

Whose Law Applies?

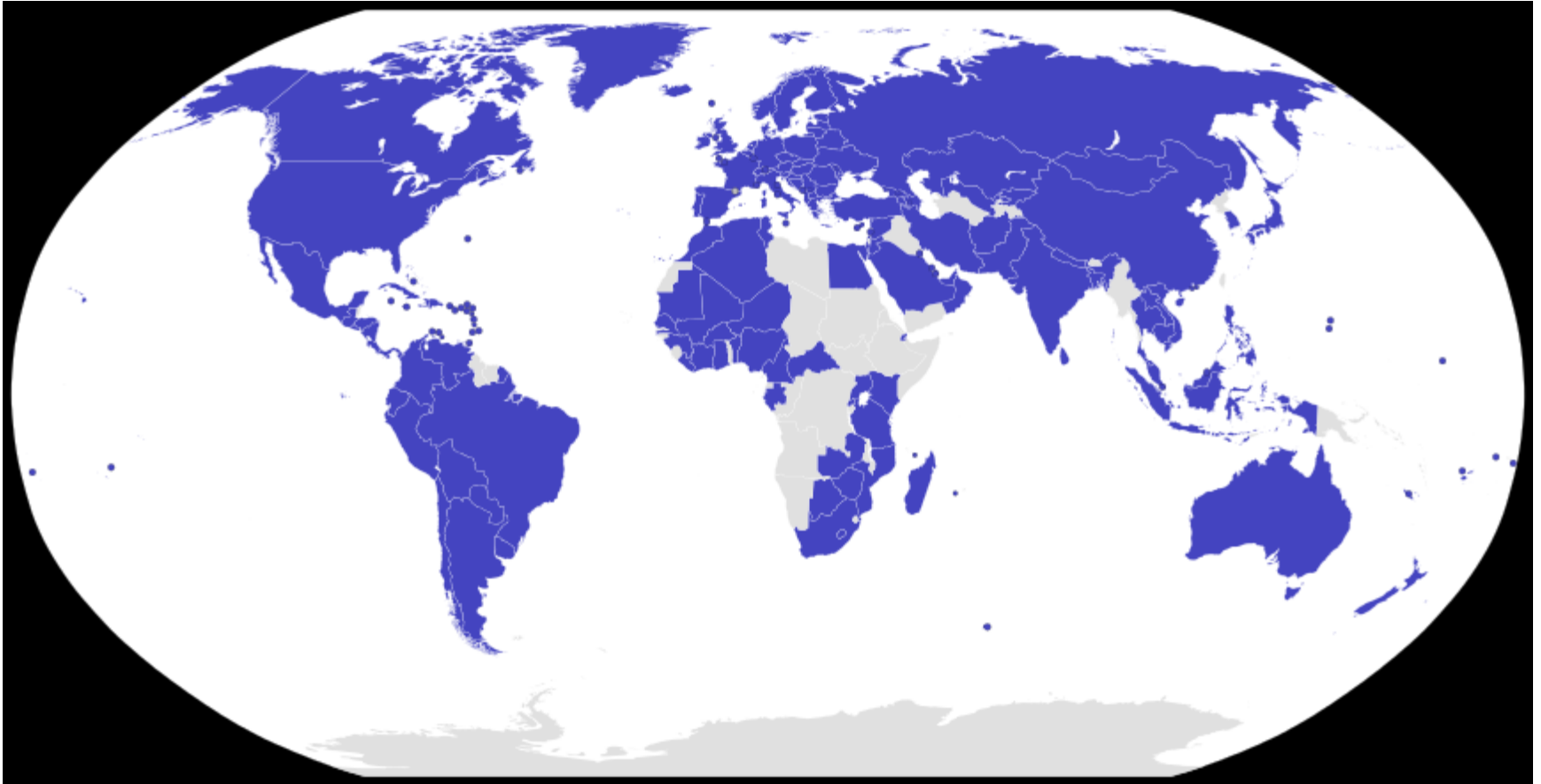
- The law governing the contract should be sufficiently sophisticated and well-tested to cope with commercial disputes
- Will the choice of law be enforceable?

Dispute Resolution -1

- Enforcement Issues
 - Reciprocal Judgment Treaties
 - Arbitration is generally more enforceable
 - New York Convention has been adopted by 144 countries (see map on Next Slide)
- Issues that should be considered:
 - Select Language of Arbitration
 - Select Governing law
 - Select Rules and Procedure

Dispute Resolution -1

(New York Convention Signatories)



United Nations *Convention on Contracts for the International Sale of Goods (CISG)*

- Applies if:
 - merchants are located in different countries and those countries are signatories to the CISG
 - doesn't apply to non-commercial transactions
 - the parties do not explicitly disclaim application of CISG
- Relates to formation issues and remedies

CISG Signatories

<http://www.cisg.law.pace.edu/cisg/cisgintro.html>



CISG Default Rules

- **The CISG may**
 - be read into and form part of your contract,
 - affect your quality, notice and other requirements,
 - interfere with and override your intention,
 - modify and affect what you believed your rights and obligations were,
 - fundamentally impact the existence and scope of your rights and obligations, and can
 - write your contract for you

Parties

- Is a subsidiary a party to the agreement?
 - Are the goods being shipped through a foreign subsidiary?
- If IP is being licensed...
 - Who actually owns the IP being licensed?
 - How are the rights getting to the end purchaser?

Appointment terms

- Exclusivity
- Territory -
 - important to limit gray market resale issues
 - if you've agreed to allow goods into one EU country then you've allowed the goods in all of the EU
 - EU Internet sales are not deemed to be active sales
- Duration of Appointment
- Non-competition obligation - (EU must be less than 5 years)

Appointment terms (continued)

- **Potential Danger areas under competition law:**
 - exclusivity
 - price restrictions / stipulations
 - tying
 - collaborations - joint ventures
 - non-compete obligations
 - post-termination restrictions
 - resale to end users / absolute export bans

Price

- Are payments in U.S. dollars or some other currency?
 - If payments are in foreign dollars, do they need to be converted?
 - How is the conversion rate calculated?
- How do payments get repatriated?
 - Is prior governmental approval required for currency conversion?
 - Is contract registration required?
- How can you ensure payment?
 - Prepayment – difficult
 - Letter of Credit – various forms
 - Factorize Accounts Receivable

Ordering and Delivery Logistics

- How does ordering work?
 - Forecasts?
 - Identify minimum lead order times
 - Identify order acceptance procedures
 - What time zone applies to deadlines?
- Where does title and risk of loss pass?
 - Dictates who has responsibility for export responsibilities
 - Is it delivered when shipped or when it arrives?
- Consider issues arising from stockpiling of goods and kanban delivery mechanisms

Delivery Terms

- INCOTERMS (different versions)
 - A set of 13 abbreviations governing the responsibilities of buyer & seller of goods in an international contract
 - Each term indicated who is responsible for freight, delivery, insurance & customs
 - e.g., FOB = Free on Board = all costs paid up to loading of goods on selected ship
 - INCOTERMS web site: <http://www.iccwbo.org>, look for “incoterms”

INCOTERMS (2010)

	Loading on truck (carrier)	Export-Customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading charges in port of export	Carriage to port of import	Unloading charges in port of import	Loading on truck in port of import	Carriage to place of destination	Insurance	Import customs clearance	Import taxes
EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
FCA	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
FAS	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
FOB	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Seller	Buyer	Buyer
DAT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	N/A	Buyer	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	N/A	Buyer	Buyer
CPT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	N/A	Buyer	Buyer
CIP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	N/A	Seller	Seller

- Source: <http://en.wikipedia.org/wiki/Incoterms>

Acceptance of Deliverables

- Issues to Consider
 - Criteria used to determine acceptance
 - Notification of acceptance or defects
 - Process to cure defect
 - What happens if defect cannot be cured ?
 - How are defective products returned?
 - Who pays?
 - Limits on cost to cure
 - Impact on revenue recognition

Distributor's Duties

- Product promotion
- Minimum purchase amounts
- Registrations
- Prohibition on bribery
- “Eyes and ears” role
- Maintaining trained sales and support staff
- Export control compliance?
- Customs clearance?

Manufacturer's Duties

- Product development
- Creation of improvements
- Training
- Product support
- Installation
- Spare parts
- Marketing materials
- Export control compliance?
- Customs clearance?

Taxes

- **Common Types of Taxes**
 - Transaction-based taxes (sales, use, VAT, GST)
 - Location-based taxes (property taxes, city/municipal taxes)
 - Taxes on personnel or Intellectual Property (withholding taxes)
- **Relevant factors may include:**
 - where the services are being performed which entity or entities are performing or receiving the services
 - whether real property, equipment or other personal property involved in the performance of services is being sold or leased
 - which entity acquires title to intellectual property
 - whether intellectual property is being licensed or assigned
 - where invoices are rendered and paid and by whom
 - and how invoiced amounts are characterized on the invoices.
- **This is a very complex issue that requires sophisticated planning!**

Intellectual Property Issues

- Grant of licenses
 - various requirements depending on licensed property and type of relationship
- Ownership of rights
 - Trademark: First to File vs. First to Use
 - Improvements: Assignment vs. Grant-Back
- Confidentiality
- Joint development issues

Trademark License Issues

- Grant clause should explicitly identify the licensed goods or services
- Trademark owner must maintain quality control over the licensed goods and services (see next slides)
- Trademark owner may reserve the right to inspect and approve the form and appearance of the mark in advertising (this is not quality control)
- Must be careful to avoid franchise issues

Trademark Quality Control

- Direct Quality Control - License agreement contains provisions for direct control by licensor. Examples:
 - supply of products or ingredients
 - providing precise instructions for manufacturing the marked goods or supply the marked services
 - inspection of facilities
 - inspection of product or services

Regulatory and Quality Issues

- Specifications - Legal and Technical Requirements
- Legal/Regulatory Approvals
- Approval of Source of Raw Materials and Change
- Manufacturing Documentation Requirements
- Quality Control Testing and Procedures
- Inspections and Audits (prime and subcontractors)
- Changes to Facility/Specifications/Manufacturing Process (Notice, Approval Procedure, Price Adjustment)
- Labeling and Packaging Requirements
- Reporting
- Manufacturing Suspension or Termination
- Epidemic Conditions (Definition and Procedures)
- Product Recalls (Notification, Cooperation with Regulatory Authorities, Logistics of Product Recall, Costs and Remedies)
- Failure of Supply (Shortages, Remedies)

Trademark/Franchise Issues

- Franchise Concern: State and Federal Franchise Laws may apply if too much control is exercised. Indicia of control are:
 - Licensee is required to sell certain type, quality or quantity of product
 - Licensee is required to utilize training manuals provided by licensor or follow specified operating procedures
 - Licensee required to purchase ingredients or products from designated suppliers
 - Licensee required to advertise or promote its goods/services in a specified manner.

Term and Termination -1

- What is the duration of the Agreement?
- No fixed term, but terminate on notice? (Dangerous)
 - Be careful - forever is a long time, or contract may be terminable at will as courts don't like perpetual agreements
- Without cause? Or, without cause after first year?
- Who benefits from a short term vs. long term?

Term and Termination -2

- Be wary of getting into a contract you cannot terminate.
- Terminate for convenience?
- Terminate only for “cause”?
 - Define cause
 - Cure period? 30 days? 90 days?
 - Terminate immediately after cure period, or is further notice required?

Term and Termination -3

- Automatic renewal provisions
 - Found in maintenance agreements, etc.
- How much notice is needed before the end of current term? 30/90 days?
- No one remembers to terminate in time

Term and Termination -4

- Effect of Termination
 - Termination fees for early termination
 - sublicense survival?
 - Rights to continue using product
 - Continuing obligations of transition assistance
 - Wind-down period?
 - EU - post termination obligations must not exceed one year

Allocation of Risk

- Product Liability Issues
- Warranties
- Indemnification
- Remedies
- Limitations on liability
- Insurance

Product Liability Laws

- Claims can be based on different theories
 - Negligence
 - Strict Liability – liability does not depend on the degree of carefulness of the victim
 - Failure of Warranty
- Three types of defects commonly give rise to claims
 - Design Defects
 - Manufacturing Defects
 - Defects in Marketing (e.g., failure to warn or provide adequate instructions)

Exemplary Product Liability Laws - Europe

- Product Liability Directive (1988)
 - “The producer shall be liable for damage caused by a defect in his product.”
 - A product is defective when it “does not provide the safety which a person is entitled to expect,” considering all circumstances
- Machinery Safety Directive (1993)
 - “CE” Mark may not be applied unless product meets all technical requirements
 - Imposes a duty to warn and instruct
- General Product Safety Directive (1994)
 - Obligates producers to make consumer products “safe”

Exemplary Product Liability Laws - Other Countries

- Australia—follows EU Product Liability Directive
- Taiwan—recent legislation adopts strict liability theory
 - products and services must be “free from any danger to safety or sanitation.”
 - Note: stricter than U.S. reasonable danger standard
 - Importers are held to same standard as manufacturer
- China—Product Control Law. Product must
 - comply with national and industry standards
 - not pose an "unreasonable danger" to people or property
 - have the “properties that should be possessed by such products,” except where explanations about defects have been provided
 - conform with standards carried on the product or its packaging, or with the quality indicated by a sample

Express Warranties - 1

- A warranty is “an assurance by one party to a contract of the existence of a fact upon which the other party may rely” (17A Am. Jur.2d § 410)
- Generally not duties or rights per se, but statements of assumptions made by a party about the facts underlying a deal
- Affirmation can be express or implied
- Create direct cause of liability in the event the basis of the warranty is proven untrue

Express Warranties - 2

- Without a proper integration clause, extrinsic affirmations can be made part of a sales agreement
 - Integration clause may or may not prevent fraudulent inducement claims
- Can arise without use of terms such as “warrant” or “covenant”

Express Warranties -3

- **Exemplary Types of Express Warranties:**
 - Conformance with Specification/Documentation/Sales literature
 - Operating Performance
 - Hardware/Software Compatibility
 - Data Conversion/Compatibility/Integrity
 - Documentation
 - Delivery Times/Methods
 - Standard of Services
 - Support and Response Times
 - Lack of Viruses/Time Bombs

Warranties - Implied

- Various countries impose warranties into contracts
 - Title
 - Non-infringement
 - Merchantability
 - Course of Performance
 - Fitness for Particular Purpose
- Implied warranties arise even if agreement says nothing on the subject--that is the nature of an implied warranty
 - Sellers will typically affirmatively disclaim implied warranties

Implied Warranty of Title

- (1) Subject to subsection (2) of this section, there is in a contract for sale a warranty by the seller that:
 - (a) The title conveyed shall be good, and its transfer rightful; and
 - (b) The goods shall be delivered free from any security interest or other lien or encumbrance of which the buyer at the time of contracting has no knowledge.
- (2) A warranty under subsection (1) of this section will be excluded or modified only by specific language or by circumstances which give the buyer reason to know that the person selling does not claim title in himself or that he is purporting to sell only such right or title as he or a third person may have.

Implied Warranty of Non-Infringement

- § 2-312(3) -- Warranty against infringement of third party rights
 - “Unless otherwise agreed, a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like, but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.”

Implied Warranty of Merchantability - 1

- § 2-314 -- Warranty of merchantability (if Seller is merchant)
 - “(1) Unless excluded or modified (section 4-2-316), a warranty that the goods shall be merchantable is implied in a contract for their sale if the seller is a merchant with respect to goods of that kind. Under this section, the serving for value of food or drink to be consumed either on the premises or elsewhere is a sale.”

Implied Warranty of Merchantability - 2

- (2) Goods to be merchantable must be at least such as:
- (a) Pass without objection in the trade under the contract description; and
 - (b) In the case of fungible goods, are of fair average quality within the description; and
 - (c) Are fit for the ordinary purposes for which such goods are used; and
 - (d) Run, within the variations permitted by the agreement, of even kind, quality, and quantity within each unit and among all units involved; and
 - (e) Are adequately contained, packaged, and labeled as the agreement may require; and
 - (f) Conform to the promises or affirmations of fact made on the container or label if any.

Warranties Implied by Course of Performance

- § 2-314(3) -- Warranties that arise by course of performance
 - “Unless excluded or modified (section 4-2-316), other implied warranties may arise from course of dealing or usage of trade.”

Implied Warranty of Fitness for a Particular Purpose

- § 2-315 -- Warranty of fitness for a particular purpose
 - “Where the seller at the time of contracting has reason to know any particular purpose for which the goods are required and that the buyer is relying on the seller's skill or judgment to select or furnish suitable goods, there is, unless excluded or modified under section 4-2-316, an implied warranty that the goods shall be fit for such purpose.”

Indemnity

- The obligation of a party to restore or secure against loss or liability another party (in whole or in part) from certain types of loss or liability
- Often used in the place of or to supplement express and implied warranties
 - e.g., a Seller disclaims the implied warranty of non-infringement but agrees to indemnify Buyer from third party actions for certain types of infringement

Indemnity -- Scope of Obligation

- What is covered?
 - claims? allegations? final decisions?
 - type of damages? finally awarded damages? attorney fees?
 - covered activities
 - simply the existence of the product or software
 - claims directed at the “use” of the product or software
 - what type of intellectual property rights are covered?
 - patents, copyrights, trademarks, trade secrets?
- What is excluded?

Indemnity -- Exclusions

- Product is manufactured or used in accordance with Buyer's specifications
- Buyer uses product in manner other than the normally intended manner
- Product is used in combination with products not provided by Seller
 - exception to exclusion - unless such product is normally intended to be used with such a product
- Product is modified or not properly maintained by Buyer
- Customer's willful, knowing or deliberate infringement of a patent, copyright, trade secret, trademark or other proprietary right
- The use of the Product to produce other materials or equipment

Indemnity -- Seller Protection - 1

- Seller may include certain options that allow the Seller to repair, replace, modify (without degradation of functionality), obtain a license from third party, or refund on depreciated basis
 - Licensee will want to limit the refund option to situations where other remedies are not possible
- Licensee will want to limit the Triggering Event
 - event of a claim
 - reasonable belief that the product is infringing
 - held to infringe
 - use is restricted as a result of a claim

Indemnity -- Seller Protection - 2

- Seller may attempt to limit obligation to amounts “finally awarded”
- Obligation may extend to consequential and indirect losses, attorneys’ fees
- Consider relationship with limitations on liability (are obligations of indemnification excluded from or subject to limits on liability?)

Remedies - 1

- UCC/CISG provide numerous default remedies (e.g., cover, damages, recover identified goods) if not disclaimed
 - Are express remedies the sole and exclusive remedies available?
 - Consider whether warranties are cumulative or aggregated
- Remedies can be set forth expressly in the agreement
 - e.g., repair, replace, re-perform or refund amounts paid
 - What are the time limits?
 - Liquidated Damages

Remedies - 2

- “Liquidated Damages”
 - Contract provision that specifies amount of damages in event of breach
 - Damages must have been hard to predict or estimate at time the contract was made

Limitation of Liability - 1

Three Categories of Damages

- Direct (basic measure of damages)
 - Difference between contract price and market price at time of breach
- Incidental damages
 - Costs directly associated with obtaining replacement goods (seller's breach) or selling goods (buyer's breach) may also be recovered
- Consequential damages
 - Usually lost profits

Limits on Liability - 2

- 2 Issues to Consider – Types of Liability vs. Amount of Liability
 - Types of Liability include: consequential, incidental, indirect and special damages
 - Exclusion of consequential and indirect damages may favor one party more than the other
 - Caps on the amount of liability:
 - aggregate/per incident caps vs. cumulative caps on liability
 - relationship to amounts paid/value of contract
 - total amount paid vs. portion of amounts paid (e.g., “within 12 months immediately preceding events giving rise to liability”)
 - Liquidated damages vs. caps

Limits on Liability – 3

Failure of Essential Purpose

- Courts may not enforce limits on liability if the only available remedy fails of its essential purpose
- Doctrine is driven generally by concern that contracts provides at least a fair quantum of remedy for breach of the contract
- Many courts apply two-part test:
 - identify essential purpose of limited remedy
 - identify whether or not limited remedy in fact failed to meet such essential purpose

Insurance

- May be contractual or extra-contractual means of controlling exposure to liability
- Contract may require a party to carry certain levels of insurance
- May include obligation to name other party as additional insured
- Parties may obtain insurance on their own behalf to protect against liability that may arise by performance (Commercial General Liability, Media and Advertising Liability, Environmental Liability, etc.)
- Requires consultation with broker/agent

Escrow

- Some types of contracts may be appropriate for forms of escrow
- Consider software licenses -- if Buyer significantly invests in Seller's technology, Buyer does not want to be without recourse in the event Seller fails to perform, goes bankrupt or discontinues business
- Escrow puts Seller's property at risk of exposure in the event of release; protects Buyers from dependency on unsupported technology
- Terms (e.g., release conditions, scope of use, etc.) can be negotiated

“Force Majeure” Events

- Parties can bargain for effects of “FME”
- Consider scope and wording (what is/is not considered FME)
- What form of relief is granted (excused from performance, suspension of performance, termination, etc.)
- Disaster Recovery Obligations of Seller
- Right to cover at Seller’s expense

Thanks!

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