

The EPPIC eye

Best Practice in Intellectual Property Management



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Best Practice in Intellectual Property Management

Introduction

Intellectual Property (IP) is an increasingly important aspect of business today. As we move further into the “knowledge economy”, the embodiment of knowledge in the form of IP forms a crucial part of the value of a business and IP considerations underlie many important business decisions.

IP is not, however, a “legal” issue; it is a fundamental business issue and all aspects of IP management must be considered as important *business* decisions. If IP is to have value, it must be prepared into an exploitable form, protected, managed and marketed, just as any other product.

This booklet describes some best practice in protection and exploitation of IP, including IP in joint developments, pricing and business models.

What is IP

IP is fundamentally know-how and is contained in the minds of your staff. IP in the accepted sense of an intangible (and potentially tradable) asset is an *instance* or *embodiment* of true IP, such as a design, a blueprint, a computer programme, a work of art or literature etc.

Intellectual property in the sense used by most people in industry comprises two elements:

first, the registrable and/or legal IP rights such as patent rights, copyright, trade mark rights, design rights, database rights etc, and

second, confidential information, trade secrets, technical information and know-how.

Whichever definition you choose, if it is to have *sale* value IP must be useful to a customer and usable by that customer; it is unlikely to be simply a patent or a “bright idea”.

Intellectual property versus intellectual property rights

It is critical to understand the difference between intellectual property (IP) and intellectual property rights (IPR); many poor businesses decisions have been made because of such a misunderstanding. Intellectual Property describes what it is; Intellectual Property Rights describe what you can do with it, an important distinction. Ownership of IP is not necessarily important; it is quite possible to own IP but not to have the rights to use it. Equally you may have all the rights you need to use the IP as you wish without needing to own it.

Why is IP important?

Intellectual property and rights in IP (and in particular their future promised value) are often a crucial factor in the value of a company. Intangible assets, of which IP is often the major part, represented almost three quarters of industrial market capitalisation in USA by the end of the 1990s. In 2000, licensing and royalties earned the USA \$37 billion, compared to \$29 billion for aircraft sales.

There is no doubt that it is worth managing and protecting.

Protecting IP

Confidentiality policy

Any business that considers its Intellectual Property to be important should have *and use* a confidentiality policy. This is not a document to be put into the drawer to gather dust (with the business plan and the requirements specifications¹); rather it is important information with which every employee should be familiar. The policy should outline everyone's responsibilities for protecting the company's confidential information.

Trade secrets

Trade secrets are the most important and, in many ways, the simplest way of protecting IP. Anything stays a secret if you don't tell anyone! However, keeping your information secret is not as simple as it may sound. There are a number of risks and problems. It is unlikely that you could develop your product without discussions with third parties, customers, suppliers, contractors etc. you need to be able to share confidential information, such as technical details, with such partners.

You will also need to market your product or service, usually a process that begins before the development is completed. Often your marketing programme requires you to divulge some details about your product that you may have preferred to keep as a trade secret until the product is launched. You could choose to release no details about your product, but there is a real danger of protecting yourself out of business. You need a mechanism to allow you to release some secrets to your key customers without putting the information into the public domain and compromising your trade secrets and your ability to apply for patent protection for your inventions. Confidentiality agreements offer a way forward.

Confidentiality agreements

Legal protection of trade secrets can allow you to tell people about your secrets without making them public. Confidentiality agreements, often known as Non-Disclosure Agreements (or NDAs), are a common way of protecting your information as trade secret while still allowing detailed discussion with third parties. Remember, though, that a secret shared with many people is no longer a secret. Above all, remember that NDAs are only as strong as the management that signs them. When you consider signing an NDA, or review your portfolio of existing NDAs, it is useful to ask yourself the following questions:

- a) Is this transfer of confidential information necessary for the business purpose?
- b) Who, individually, is involved in the transfer and who needs to know the information?
- c) Can I be sure that the information is restricted to those individuals that need to know?

¹ In case of misunderstanding, this is a tongue-in-cheek remark: business plans and requirements specs should not be shut away in the drawer either!

- d) Who is signing the NDA – are you happy that they are signing on behalf of the company?
- e) Who has read and fully understood the implications of the agreement being signed? Does the management understand these?
- f) When does the NDA expire and what are your rights/responsibilities when it does expire?
- g) What happens if the other party audits you?
- h) How do you go about auditing the other party?

Many companies, especially large corporations, are very reluctant to sign any NDA except their own document that has been approved by the corporate lawyers. Even smaller companies should have a standard NDA that allows them to exchange confidential information and that has been checked by their lawyer, making sure that the management truly understands all the terms, rights, responsibilities and implications.

This is not a legal issue; it is a management issue. Mistakes impact the business, not the lawyers.

Email and the internet

Consider normal (i.e. un-encrypted) email as open discussion, even if the text of attachment is marked confidential, it could be intercepted and read. All companies should have *and use* an internet usage policy; remember that the company is liable for internet use by employees. The internet is not, and cannot be, a secure environment without the use of secure methods of transmission such as VPN or encryption.

Employment contracts

One of the biggest risks to the protection of trade secrets is the careless (or disgruntled ex) employee. It is impossible to cause employees to forget their knowledge when they leave, but you can protect the instances of their knowledge that are implemented in your IP. Despite the fact that they are a legal requirement, employment contracts are surprisingly rare. Usually an employee's terms of employment are contained in the formal job offer letter, which the employee signs. Ensure that all employees have signed their terms of employment and that the document clearly assigns all IP generated in the course of employment to the company. The employment terms must also ensure that responsibilities for confidential information and for supporting any formal procedures (eg patent applications or proceedings) after employment ceases are clear.

Consultants and contractors

When using external consultants or contractors, IP considerations are paramount. Consultants may be individuals or companies, in both cases there needs to be an explicit agreement concerning the IP rights. Often the contracting company requires the IP to be assigned to them. However, from an IP protection point of view, the most

important points to note are, firstly, that signing an NDA does not deal with everything (a consultancy agreement is always be needed as well) and, secondly, that, by default, a consultant owns the IP rights in anything they create even though you pay them. You must, therefore, have in place an agreement *explicitly* assigning to you all IP rights in anything they create during their work for you².

Remember, the people who will attempt to prove that a patent has been published are competitors and others whose existing patents may be put at risk by the company's technology. They may go to great investigative lengths to attempt to destroy the validity of a threatening patent.

Respecting other people's IP

An important consideration, not least through your obligations in NDAs, is to respect properly other people's IP rights. Such rights include copyright, trade marks and patents, as well as confidentiality. A major infringement of a third party's IP rights could result in litigation that might severely damage your company.

If you receive confidential information from a third party (eg a supplier, customer or potential customer, university, partner etc), you must, at the very least, treat it with the same respect that you treat your own IP, that includes not sharing it internally except where there is a reason to do so. Remember that there may be additional constraints applied through the NDA covering the transfer.

If there is no NDA in place before a discussion with a third party, it is your responsibility to ensure that you are not given any confidential information – it is worth beginning such a meeting by stating that you are not prepared to hear any confidential information and will not treat anything you are told as confidential.

Legal protection

Legal protection of IP can exist in a number of forms, the most important of which are:

- Patents
- Trade marks
- Copyright
- Design Right
- Database Right

² While in the main body of the text, we suggest a *strong line*, it is worth considering whether you can allow the consultant to retain some IP or some IPR. Often you may not be able to exploit some of these yourselves and retaining them for the sake of it may well cause an unnecessary disagreement with the contractor. Also, of course, there may be a financial incentive to assigning IP to the contractor. So, for example, a lawyer contracting an expert witness in a legal dispute would not gain any benefit from a clause assigning any invention that the expert happens to make as a result of the work that he does and so exploitation rights could be assigned to the contractor without loss.

But, in UK, there is an underpinning of common law right to IP protection, such as the laws covering “passing off”.

In some cases, applying for legal protection can be an expensive decision and the business case should be examined carefully.

Benefits of legal protection

Legal protection allows you to seek the protection of the courts against infringement. The courts can require payments, including royalties, licence fees and damages; the courts can also grant injunctions to stop the infringement. Legal protection is also a clearly demonstrable IP right; it is registered with an independent body and can be a measurable, albeit intangible, asset of the company.

Costs/problems of legal protection

Some protections, eg patents, require publication of the IP, which may not always be appropriate or desirable. The famous Coca-Cola recipe is protected as trade secret and not protected by any legal protection.

Legal protection can be expensive, particularly in the cost of policing, detection of infringers and litigation against infringers. If you will never be able to take action in the courts against infringers, is the legal protection of any real value?

Again, these decisions must be taken on a business, not legal, basis, by management, not your lawyer.

Patents³

There are many sources of information regarding the mechanics of applying for patent protection. In particular the UK (www.patent.gov.uk), European (www.european-patent-office.org) and US (www.uspto.gov) patent offices offer a great deal of advice. This section covers some practical aspects of the patenting process.

Patents offer a legal monopoly to an invention in return for publication; the monopoly granted by a patent normally lasts for 20 years from the date of the initial application. A patent may be granted for an invention that:

- Is new (not already known)
- Involves an inventive step (ie is not obvious)
- Is capable of industrial application (if it is not, why are you patenting it?)

Patents are generally considered a powerful protection of IP and can underpin substantial businesses, especially in licensing IP or in monopolistic production. A major factor when

³ Further information on patents and the patent process can be found in the EPPIC Eye “*Protecting Innovation with Patents*” by Dan Lord and Peter Ivey.

considering applying for patent protection is the influence that good patent cover can have on the intangible asset value of your company. Some investors require patent protection of your IP as a condition of their investment.

What is patentable?

This is a complex subject that goes outside the scope of this booklet. Refer to www.patent.gov.uk for more details on UK patent law and case summaries. In general inventions are patentable; discoveries, ideas, works of art or literature, rules for a mental act or game and mathematical methods are not. *Of particular interest is the subject of software patents. In UK (as in most countries outside USA), computer programmes are explicitly excluded from patentability. However, inventions that would otherwise be patentable, but which happen to be embodied in software, may be patented if they have a “technical effect”.*

International aspects

It is very easy to get carried away with international patent protection. There are 191 countries that are members of the UN and 123 signatories to the Patent Co-operation Treaty (PCT). It would be very expensive to attempt to obtain patent protection Worldwide! Fortunately, it is possible to obtain effective international patent protection with a judicious choice of territories.

The important fact is that patent protection grants a monopoly of use of the invention; this includes sale as well as manufacture of infringing products. Consider the potential markets for your products, as well as the countries where products may reasonably be manufactured. Cutting off access to either set is enough to give effective coverage. As an example, many electronic products can be manufactured in a wide variety of countries in the Americas, Europe (East and West) and Asia. However, the market for such products remains predominantly in USA, EU and Japan (with China rapidly joining the group). So, if you can achieve patent coverage in USA, Europe and Japan, potential infringers, even if they manufacture in a third country, cannot sell into the dominant markets in the world; the remaining available market probably does not justify the investment in production (and you will not lose sales in any market that you are not actively addressing since you have none anyway).

Patenting process

Patent applications are normally filed first in a single country, commonly the home country of the applicant. The international process can be simplified by following the “PCT” route. This allows a single preliminary examination (normally by the European Patent Office, EPO) and delays the final decision on individual country applications (and therefore delays the expense of the individual applications). Note that the overall cost of taking the PCT route is higher than filing directly in the chosen countries.

Typically the process of obtaining patent protection follows the following route (assuming the first filing is in UK):

What applicant needs to do	When	What the Patent Office does
File a full description of the invention	Before 'public disclosure'	Provides an application number and filing date (the priority date) Writes to explain the next step
File full patent application (including claims & abstract)	Within 12 months of priority date	Adds claims & abstract to the application
Request a search	Within 12 months of priority date	Issues a preliminary examination & search report typically within 12 weeks
File international extensions (or PCT)	Within 12 months of priority date	PCT Application normally made to European Patent Office (EPO) EPO will issue an Interim Patent Examination Report (IPER) that is circulated to all nominated countries.

Eighteen months from the priority date, the patent application will be published.

Note that if you change your mind and wish to withdraw your application, thus preventing publication, this must be done within twelve months of the priority date.

Request UK examination	Within 6 months of publication.	Issues a substantive examination report
Respond to the examination report	Within the time specified in the examination report	Looks again at the application with any amendments that have been proposed

Note that this step may be repeated until the final form of the application is agreed.

Respond to IPER	Within the time specified in the examination report	This is not essential as national patent officers will re-examine the application
File national applications in chosen countries	Within 30 months of priority date	Must be filed directly in each country, in the correct language with the correct forms.
Pay renewal fees	On time.	The patent only remains in force as long as renewal fees are paid.

Patent costs

The costs of applying for and maintaining patent protection vary greatly, advice from a patent agent is essential before embarking on your chosen patent strategy as international decisions affect the cost significantly.

As a rough guide, large corporations typically estimate the costs of obtaining international patent coverage to be in the region of £30,000 per patent.

The need for engineering records

Any method of protecting IP requires that proper and accurate records be kept; since engineering is the major source of IP for many companies, engineering records are of prime importance. It should be noted that good quality records could help to protect your company from accusation of IP infringement by third parties as well as to protect your own IP.

These days much IP is stored electronically and an important aspect of record keeping is a good quality source code control system. Such a system allows engineers to “check out” the task they wish to work on and to “check in” the results of their work (at the minimum, at the end of each working day). A good system will keep the history and have a date/time stamping mechanism that cannot be tampered with (at least not easily!)

No electronic system, however, can fully replace the engineering logbook (or laboratory notebook).

What is an engineering logbook?

A logbook can be any permanent record of your work. It should have permanent binding (a loose-leaf file is not acceptable) and should preferably have numbered pages. All entries to the logbook should be in ink, not pencil. All logbooks must be marked as confidential.

Keeping a logbook

It is vital to record work legibly and correctly. You should record all experiments, including those that fail as they help to establish that any invention involved innovation to solve a non-trivial problem. Include drawings wherever possible. If computer printouts are relevant, they should be glued into the book and labelled.

Remember to write the date every day.

It is good practice not to leave blank pages or parts of pages. If you want to start a new page, draw a line through any unused part of the previous page.

Any errors should be simply crossed out (so that they remain readable) **DO NOT USE TIP-EX OR SIMILAR AND NEVER, EVER REMOVE PAGES FROM THE LOGBOOK.**

Recording inventions

Any invention may, potentially, be patentable so it must be recorded. Include in your logbook all novel ideas and solutions to problems. Remember also to include failed attempts to solve the problem – with the reasons for failure. A patent application needs to demonstrate that the conventional approach does not solve that problem and that an inventive approach was required.

Logbook administration

Logbook issue

Good practice encourages sound documentation without imposing excessive bureaucracy. One person (or department) should take responsibility for issuing logbooks and keeping a record of logbook issues. Each logbook should be numbered and dated (on the cover) when issued and the details entered into the record. Completed logbooks should be returned to the issuer who will mark and date the cover as completed, note the completion date in the record and issue a replacement.

Logbook storage

All logbooks contain company confidential information. Blank and completed logbooks should preferably be kept in a secure cabinet. Completed logbooks must be easily accessible to the owners, but returned after use.

Current logbooks are stored by the individual engineer, but remember that they are confidential information and must be treated as such – do not leave them lying about on your desk at night!

Logbook dates etc

It is good practice for each logbook to be periodically dated and signed by an independent person. For example, if there are regular engineering meetings, each engineer could bring their logbook to the meeting and ensure that it is dated and signed by someone else.

Copyright

Copyright provides the creator(s) of appropriate works certain rights such that they may control the numerous ways in which their work may or may not be exploited.

These rights broadly cover the copying, adaptation, issuing, public performance, broadcast, and rental/loan of copies of their work. Normally the creator of such works will also have the right to be identified as such and may be able to object to distortions and mutilations of their work.

It should be noted that copyright does not provide protection of the basic theme, plot etc of a particular piece of work, copyright only protects the actual form in which the work exists.

One important aspect to note in relation to copyright is that it is an automatic right. An automatic right means that there are no forms to fill out or any fees to be paid and copyright exists as soon as the work in question is created.

The following is a non-exhaustive list of examples of where copyright exists and is mainly directed at literary and artistic works such as:

- a) original literary works such as novels, instruction manuals, computer programs, lyrics for songs, articles in newspapers
- b) original dramatic works, including dance or mime
- c) original musical works
- d) original artistic works such as paintings, photographs, sculptures, architecture, technical drawings, diagrams, maps, logos
- e) sound recordings, on whatever medium, which could actually be recordings of other copyright material
- f) films and video recordings
- g) audio/visual broadcasts and
- h) computer programs.

Even though there are no requirements to register works for copyright purposes, it is always advisable to ‘stake your claim’ with an appropriate copyright notice such as:

© ACME Ltd 2004

Trade marks

Although trade marks might seem to be of limited relevance to many, it is probably the most powerful tool in the IP toolbox. A trade mark is a protected brand and branding can be critical, also trade marks last in perpetuity, unlike patents or even copyright. Any company that becomes the “safe” brand in its market has a huge competitive advantage. Remember the old adage that “no-one got fired for buying IBM” (or Intel or ARM etc). Whatever the trade mark status, common law in UK is a recourse available in the case of “passing-off”.

A trade mark is any graphically represented ‘sign’ that can be used to distinguish the goods and/or services of one trader from those of another.

A term ‘sign’ includes a word(s), logo, combinations of a word(s) and logo, 3D shapes and even sounds and smells!

A trade mark is therefore a "badge" of trade origin and as such, it can be used as an extremely valuable marketing tool so that customers are able to recognise and distinguish the product/service (and associated reputation, quality etc) of a particular trader.

In order to be registrable, a trade mark must meet three basic criteria, it must:

- a) be distinctive
- b) not be deceptive and
- c) not conflict with other trade marks.

To register or not to register

If a trade mark has not been registered, redress may be sought under the common law of “passing off”. However, in order for a “passing off” action to succeed, two criteria have to be established:

1. Firstly, the mark used by the “infringer” is associated, by the public, with the trader’s own product
2. Secondly, the “infringer’s” product has been mistaken, by the public, for that of the trader.

The UK Patent Office publishes a number of booklets that provide useful information about various aspects relating to trade marks.

The Trade Marks Search and Advisory Service offered by the UK Patent Office enables a prospective applicant to obtain the Patent Office’s preliminary view of the registrability of a trade mark.

The cost of applying to register a trade mark in a single class of goods/services is currently £200 and for each additional class the cost is £50. The application fee also covers the cost of examination of the trade mark application.

It is also possible to apply for a European Community trade mark. Such a registration covers a trade mark in all EU countries. Additionally, it is possible to apply for the International Registration of a trade mark via the World Intellectual Property Organisation (WIPO - www.wipo.int)

Design rights

Design rights are similar to copyright, but with some important differences. In particular there are national rights in the UK and other countries, European Community rights and the concept of a *design patent* in the USA.

A European Community design right is a registered legal right that provides a monopoly for the outward appearance of an article or a set of articles of manufacture. Such a registration can last for a maximum of 25 years (see www.oami.eu.int/en/design/default.htm for further information). In the UK, there is a weaker protection that may be registered or unregistered (providing weaker protection still). A design right is also a property that, like any other business commodity, can be purchased, sold, hired or licensed. It is interesting to note that a registered design in the UK is additional to the automatic design right and/or copyright that exists.

European Community design rights can be registered through the UK patent office, as are UK registered design rights.

What is a design right?

A design right is a relatively new IP right that applies to original, non-commonplace designs of the shape or configuration of articles. Not all designs qualify for design right. To qualify, the design must be the shape or configuration of an article. Therefore, a two-dimensional design, such as textile or wallpaper designs, do not qualify, although these may qualify for copyright.

Furthermore, the design must not be commonplace and as such, well-known, mundane, routine designs cannot acquire design right status.

Applying for a design right

Design right protection, like copyright, arises automatically when the design is created and so it is advisable to record when the design first appeared in a material form; and when articles that have been made to the design are first made available for sale or hire. Such information is useful if the rights in a design are challenged or if it is believed that someone is infringing such a right and court action against an alleged infringer is commenced. Registration of a design right improves the protection available, as well as registering the application date. Registration is not very expensive: EU registration costs €350 (plus £15 UK patent office handling fee); UK registration costs £60. Renewal fees can add a total of up to €540 for EU registration or £1100 for UK registration.

Design right protection

A European Community design right is a monopoly that applies for 25 years (if registered) or 3 years (if not registered). By contrast, in the UK, a design right is not a monopoly right but a right to prevent copying, and lasts for 10 years from first marketing articles made to the design, subject to an overall limit of 15 years from creation of the design.

A UK design right is an exclusive right for five years after first marketing, it then becomes subject to licences of right for the remaining five years of its term. Therefore, during the first five years, a UK design right is infringed by the unauthorised trading in such articles. The design right owner has the right to take civil action in the courts seeking damages, an injunction or any other relief available to plaintiffs for the infringement of a property right.

During the final five years, anyone is entitled to a licence on reasonable commercial terms to make and sell articles copying the design. However, the design right owner is not obliged to make design drawings or provide any know-how to the copier although he may choose to do so as part of the negotiation of the licence.

Exceptions to design right

Any feature(s) of the design that enables one article to be functionally fitted or aesthetically matched to another article gets no protection. These so-called must-fit

and must-match exceptions have been provided to ensure that competing designs for spare parts cannot be kept out of the market.

These exceptions mean that competitors cannot be prevented from copying any features of a protected design that enable their own design to be connected to or matched with existing equipment designed by someone else. However, competitors infringe a design right if they copy features of a registered design where there is no need to do so.

In addition, a European design right does not exist on an article that is “contrary to public policy or morality”.

Unlike copyright, UK design right is effective only in the UK. Protection may be available in other countries under, say, petty patent or registered design systems, but a European Community design right is a more accessible option.

Registration of a design right

To be registrable a design must:

- have significant eye appeal
- be new and
- not be excluded.

The aesthetic appearance of a design must be significant and there must be design freedom, in that the design must not be determined by the shape of the whole. For example, the following articles are not eligible for registration:

- purely functional designs, because their aesthetic appearance is not important
- designs such as car panels, because their shape and configuration are determined by the overall design of the car.

Therefore, design registration is only available for truly aesthetic, stand-alone designs where competitors do not need to be able to copy such designs in order to compete.

The design must not have been made public in any way in the UK before an application for registration has been filed. Furthermore, the design must be materially different from any other published design for the same or any other type of article.

Exclusions

To be registrable a design must **not** be:

- a work of sculpture;
- a wall plaque, medal or medallion;
- printed matter primarily of a literary/artistic character, eg book jackets, calendars, certificates, greetings cards, labels, leaflets, maps etc.

Technical Protection

Technical protection is very industry and sector specific so we will just mention some general aspects here. Some examples include encryption, software keys and node-locking (controlling software such that it will only run on one particular computer).

Rights protection

In addition to actions designed to prevent copying, other related aspects include technical protection of rights, such as watermarking. Techniques such as watermarking are not strictly technical protection, rather they are technical authentication; they don't stop someone stealing the content, but they do identify the content and can identify the rightful owner.

Development of IP

The objective of this section is not to describe the process by which IP is developed but to summarise commercial issues related to this process and its pitfalls and implications.

Some overall observations

Actual development costs often exceed forecasts

- Engineers are often over optimistic (and often encouraged to be so by management).
- A proof-of-concept is inadequate in itself, it is a often long road to a product that can be manufactured and sold
- The market window must be clearly understood, particularly where 3rd party products using the IP have a short product life cycle. Missing the window can have a serious impact on your business.

Running out of money

- Most companies fail because they run out of cash, often due to overspends in R and D! Many UK start-ups are undercapitalised
- Venture capital sources dislike risk. They are inclined to invest only when the IP is available and the market is ready for it
- Seed finance is generally limited to personal/private sources
- Corporate investors may take a different view on investment as they often understand business better and have a strategic need for the IP.

Hidden development costs

The following costs are often overlooked during the development phase and lead to cost overruns:

- Testing and verification of the IP

- Testing of the IP when transferred and integrated
- Documentation in support of both internal and external use
- The total cost of any bought-in technology, including up-front costs, royalties and internal integration costs
- Any restrictions on the use of the bought-in technology

Joint Developments

There are several factors that need to be considered when more than one independent party contributes to the development of a product or a piece of IP. Before starting such a project:

- Check that each party owns or has the rights to use their technology in the joint venture and that the results are exploitable by the partners to the project
- Explicitly define the IP belonging to each of the partners: this is often referred to as the **background IP**

At the outset all parties must agree the following:

- That the background IP may be used for the purpose of the project and that it will be available on reasonable terms to the parties, if necessary for the exploitation of the outcome of the project
- That the IP generated during the course of the project (often called the **foreground IP**) has clearly defined ownership and exploitation rights
- That the terms and conditions of exploitation of the results of the project, together with the distribution of the proceeds, are explicitly defined at the start.

Background IP

Ensure that, in employing this IP in the project, no party prejudices the use of background IP outside of the project. It may well be the case that such IP is being used in other products.

Foreground IP

The agreement should set out how this IP is to be exploited and any restrictions that may apply eg territories, market segments, sales channels etc. The issue of resulting patents etc should also be agreed, with regard to ownership, payment and maintenance of the patents.

The IP resulting from the project

This normally includes both foreground and background IP as the foreground usually requires use of the background IP. Remember that it is necessary to establish the commercial rights to these results in the exploitation agreement. This will normally state by whom and how the IP will be exploited, how the proceeds will be distributed and any restrictions that are to be applied. It is imperative that this agreement is agreed at the outset of the partnership to avoid later conflicts.

Exploiting IP

Before discussing the subject of exploitation, it is necessary to describe what we are looking to exploit and to define some of the terminology. Although this is not exhaustive it helps to focus on the types of IP that are normally the subject of commercial exploitation. It is also assumed that the IP can be examined and understood by an appropriate expert.

IP can take many forms but often falls into one of the following types:

- A design, generally captured in some media form, which can be examined and understood by the appropriate expert
- A formula, formulation or process
- A concept or idea
- An artistic or creative work such as a painting, music etc
- A distinct mark or name attracting goodwill and commercial value. eg Coca-Cola, David Beckham, Dolby etc

Definitions

- **The licensor or seller of the IP:** grants to the buyer certain rights to use the IP under terms and conditions set out in a licence
- **The licensee/buyer:** enters into certain obligations resulting from their use of the IP as set out in the licence
- **Sales channels:** are the means by which IP is licensed or sold to the market. Sales may be through intermediaries such as distributors or brokers or direct to the end customer. This is discussed in some detail below.
- **Time-to-market:** the convergence of availability of the IP and the market opportunity.

Commercial exploitation

IP can be exploited in a number of ways depending on the strategy of the licensor and the demands and needs of the market. However, they often fall into one of the following categories:

- Licensing of IP to a third party in return for a licence fee and or a payment for using it (royalty)
- Once and for all sale of the IP
- Use of the IP to establish a de-facto standard in order to obtain some competitive advantage. This is sometimes employed to create opportunities and demand for added value products, which the licensor has readily available to sell on the back of this enabling licence.

In general, the closer the IP can be employed to the sale of the end product using it, the more valuable it becomes.

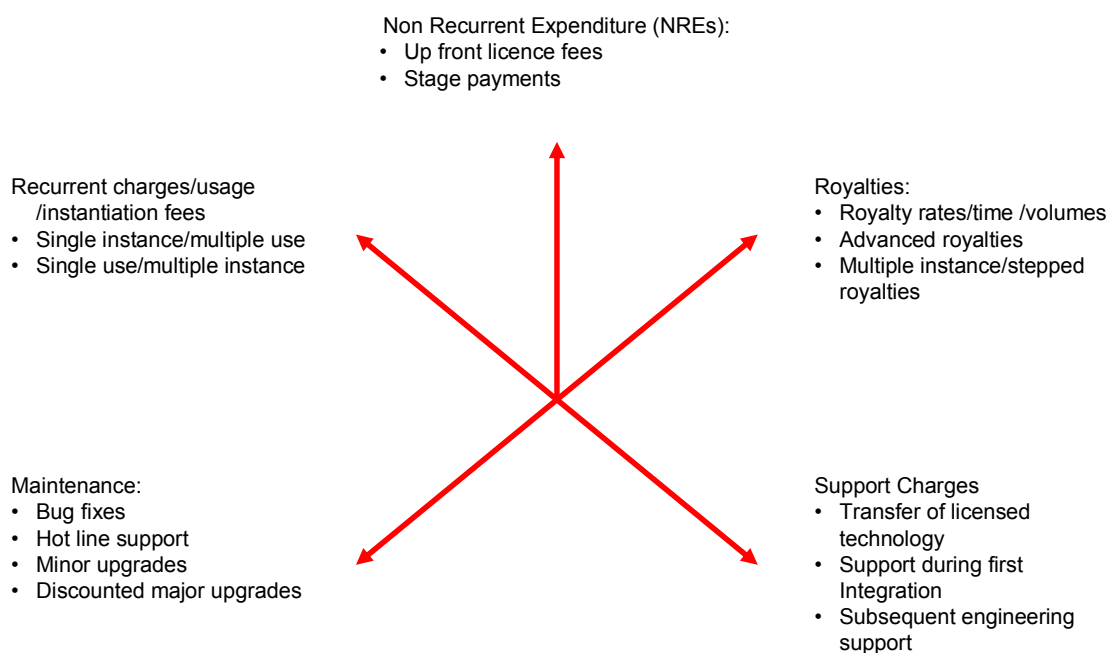
Pointers to commercial success

The value and commercial success of any IP largely depends on four major factors all of which need to be satisfied:

- a. Market demand without which there can be no sales. It is sometimes necessary for the potential licensor to stimulate this demand, although this increases the uncertainty and normally requires a substantial marketing investment. In most cases demand (excluding works of art), means understanding how the customer will use the IP and in what time-frame.
- b. The IP must be usable, in other words, not requiring further substantial development by the licensee. If, for example, the IP has only reached a conceptual stage at the time of licensing then the licensee has to expend additional development resources before employing it. This may detract from both saleability and value. It must also be robust, meaning that it has been thoroughly tested and proven and is well documented to avoid subsequent problems arising from the use of the IP by the licensee.
- c. The value is also largely determined by its uniqueness and difficulty of replication or substitution. Uniqueness is often achieved through legal protection such as patents generating a monopoly position but being first to market can also achieve the desired effect.
- d. The right business model, without which the barriers to success are substantial. Market forces inevitably determine the right price but the way in which the price is presented and structured in the form of the business model is important.

Business models

Components of the Business Model



Business models take a number of forms, dependent on the type of IP and the market in which it is being sold. In many cases custom and practise exists, although this is seldom an obstacle to creative approaches providing these are readily understood and meet the customer's needs.

The common components of the business model

- **Up-front licence fee or the NRE (non-recurring expenditure):** this is often a substantial sum either paid at the time of signing the licence or paid in stages gated by certain events as set out in the agreement. For example, stage 1 payable on signature, stage 2 is payable on transfer and acceptance of the IP, and stage 3 is payable on first use of the IP by the licensee.
- **Royalties:** these are payments made to the licensor by the licensee resulting from their usage of the IP. This can take a number of forms, described below.
- **Support charges:** it is often the case that the licensee requires technical support to cover the training and first use of the IP. This is sometimes a part of the initial license or can be set out in a separate support agreement. The common components of such agreements cover for this purpose the labour costs and availability of key expertise.
- **Maintenance agreement:** in some cases the IP as licensed, may be improved and upgraded, during the period of a licence. In such cases, an agreement covering new releases etc and featuring an annual charge is often negotiated at the same time as the main licence. This is common in the computer software industry and in some cases is mandatory. This often adds substantial income for the licensor.
- **Single and multiple use of the IP:** the cost of a licence is determined by when, where and how many times the licensee will use the IP.

The NREs and royalty rates are tailored to these different forms of licence.

NREs and royalties

These are the most common components of the business models and are often used in combination. The mix of the two is determined by a number of factors related to the type of market (custom and practice), the type of IP, the strategy of the licensor and the usage by the licensee.

The following matrix shows possible combinations of these two parameters reflecting differing strategies of the licensors.

Market strategy and positioning

NRE ↑	Valuable IP with need for short term funding CASH HUNGRY	Unique IP, providing opportunities to exploit short and long term revenue STAR IP
	Proliferation to achieve standardisation ADDED VALUE	Low entry cost to achieve longer-term maximisation of revenue MARKET PENETRATION
		Royalties →

Typical examples of positioning

- **Small companies with quality IP:** sometimes there is a conflict between CASH HUNGRY and MARKET PENETRATION. Such companies may be new to the market and very cash hungry, but may have to compromise on the level of their NREs to remove barriers to market penetration. It is often necessary to trade NREs for advanced royalties (prepaid royalties).
- **Companies with established and valuable IP:** maximise short and long term revenue. Such companies are generally able to charge reasonable NREs and royalties, both of which have been established for sometime. They very seldom use prepaid royalties as this reduces future income.
- **Large, well-funded corporate entities:** often use internally generated IP in their own products. Sometimes they licence IP to achieve standardisation and reduce barriers to own-product sales. Such companies also often negotiate large cross-licensing deals with non-competing, and even competing, companies in which they may trade the usage of many patents, for example, in exchange for IP that they believe to be useful to them.

Management of commercial risk

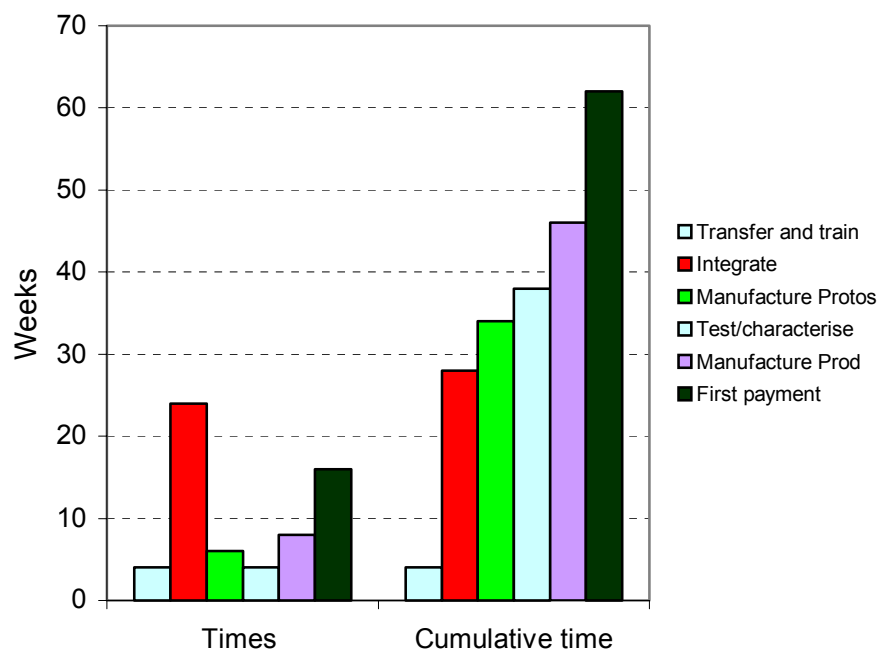
Each of the above strategies carries some risks to both the licensor and the licensee. Excluding the technical risks of the IP not working, each party must balance the commercial risk associated with each of the positioning options.

- **Licensor's risks:**
 - Foregoing NREs means delayed cash and the possibility of low or zero royalties
 - High NREs in place of royalties foregoes a share of the licensee's product revenues (long term revenue) and, possibly, affects the valuation of the company.

- **Licensee's risks:**

- Higher NREs means earlier cash commitment and longer to recover the investment. However, if accompanied with lower royalties could mean higher manufacturing margins and higher net profits
- High royalties on high-margin products may be acceptable
- Prepaid royalty is preferable to NREs, as this equates to a royalty holiday.

Royalty timing model



The timing of royalties as seen by the licensor

A royalty stream is, effectively, a percentage of the profits made by the licensee as the result of them using the IP. This can be larger than any NRE and is, effectively, free of all operational overheads. In other words, it contributes directly to the bottom line profit of the licensor.

The downside is that it takes time to appear as it is dependent on the development, manufacturing and accounting cycles of the licensee. The following figure shows the potential delays in receiving royalties. This is clearly to the advantage of the licensee.

The forms of and variations in royalty payments

Royalties often take the form of a monetary payment, a few cents or a low percentage (often as little as 0.5%) of the licensee's selling price per unit. The actual figure is determined by the value of the IP in terms of its contribution to the overall value of the end product, to existing custom and practise in the particular market, and the gross and net operating profit associated with the licensee's products.

In many cases, the royalties relate also to volumes of products sold and to time, as, for example, the value of the IP may effectively reduce during the life of the specific product. Remember, though, that the life cycle of IP is often much greater than any single product using it, and in that respect does not diminish in value.

Also royalties can be prepaid. In this case, a single sum is negotiated equivalent to (for example) the royalties expected during the first two years. This sum is then reduced (or discounted) to reflect the early payment and is paid on signature of the licence agreement. The licensor then pays no royalties for the first two years, thereafter returning to the normal arrangement.

A word of warning: this form of arrangement, although it may be attractive to both parties could establish an undesirable precedent for future deals. There is really no substitute for obtaining a reasonable NRE without delaying future royalties.

Usage models

This form of model ties payment to the actual usage of the IP in terms of when, and the number of times it is employed.

Benefits to the licensee: the licensee often pays some lower NRE on signature but delays a substantial amount until they first use the IP. This clearly constitutes a risk for the licensor, as the timing of the revenue is less predictable. This form of license generally has a time limit after which the license is terminated as fully paid up.

Disadvantage to the licensee: the total paid for such a licence is often more than for that of a single payment NRE and also it is quite common for the licensor to enforce a maintenance agreement until the license is fully paid up.

Benefits and disadvantages to the licensor: this is often less of a barrier when licensing IP, as the upfront payment is reduced, full payment being delayed until the IP is used by the licensee. Remember, though, that the cost of transfer and initial technical support must be covered by the initial payment. Every time the IP is used the licensee pays another upfront fee or sometimes further prepaid royalties. The disadvantage of this form of license is clearly the unpredictable timing of revenue, the stage payments and the resulting royalties.

Specific types of license

Licensing is one of the most common ways to extract value from IP. Before considering some of the types of licence, a word of warning: **exclusivity is very dangerous in licensing**. Many licence negotiations break down on this subject, often through misunderstanding of the meaning of exclusivity. If you grant an exclusive licence to your IP, ***you no longer have the rights to use it yourself***. An alternative is a “sole licence”, which is, probably, a better option: this gives the licensee the confidence that there will not be any more licensees, but allows the licensor to continue to use the IP.

Evaluation licences

This is a short-term, low-cost licence that allows the licensee to evaluate the IP, but not to use it for commercial purposes. In many cases, this form of licence supports the free download of the IP from the licensor's web site following the grant of a key by the licensor. Such IP is often incomplete and has a time limit after which it is disabled. This is quite an attractive approach for both parties as it reduces barriers to subsequent usage.

The OEM (original equipment manufacturer) licence

This is generally the all-embracing form of licence, permitting the non-exclusive use of the IP in design, manufacture and sale of products incorporating the IP. This normally has the two components of NRE and royalties but rarely provides the right to sublicense the IP. (A sublicense is the right of the licensee to licence the IP to a third party). A simple example of such a licence agreement is contained in Appendix 3.

The IP VAR (value added reseller) licence

This (relatively rare) form of licence permits the licensee to embed the IP in their own design and sell the result to third parties. This type of licence requires very careful wording to avoid disguised sublicensing and the use of the licensee's IP in its original or near original form. This type of licence can attract substantial royalties, as every party using the IP, even when embedded, must pay royalties to the original licensor at every stage in the chain.

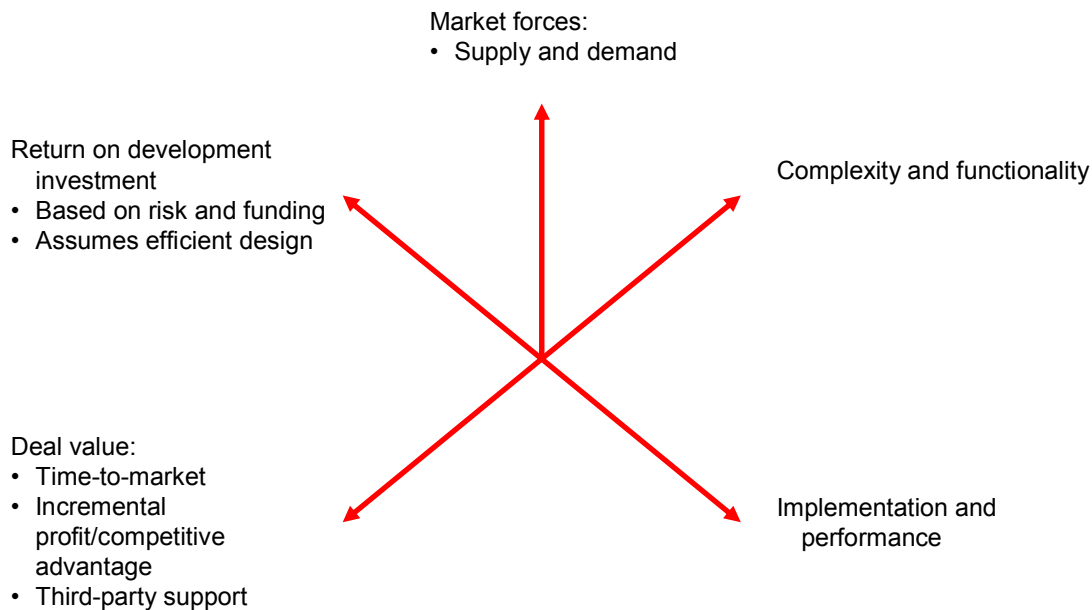
Routes to market

There are many sales channels through which IP can be licensed, directly and indirectly.

- **Selling directly to the user:** a license is granted to the user who employs the IP directly in their end products (the OEM form of license)
- **Indirect sale channels:** IP is sometimes sold through third party channels such as brokers and distributors. Although this seems attractive, it is, generally, a poor substitute for direct sales. The problems are related to technical support and to how proactive the sales channels are. IP is unlike any other product in that it requires substantial knowledge to be able to employ it effectively. In addition, the licensee often requires pre and post-sales support, which is not always available from such sales organisations. However, the advantages are that this form of sales channel may be able to sell in areas out of reach of many smaller companies; for example, countries such as the USA and the Far East. It is essential to understand the local culture, the way of doing business and the local networks not easily open to foreign companies. Issues such as patent cover in these regions can also be important. Such indirect sales channels work on a commission basis often requiring in the order of 30% of the selling price.

In addition, Value Added Resellers (VARs) can be valuable as they operate close to the end customer, sometimes offering near-complete or even complete solutions which can be both attractive and valuable. This type of channel must be carefully controlled and subject to a tight licence agreement.

Major factors affecting the price/value



Having decided on what seems to be a reasonable match for both parties then the appropriate business model can be finalised.

Pricing

This is a complex issue and must reflect a fair return on investment for the licensor and a cost-effective solution for the licensee.

The market, inevitably determines the ultimate limit to price setting, either as the result of precedent, or the customer perception of what is reasonable.

Supply and demand

Where similar products exist in the market then comparative pricing is possible. There are many sources of competitive data for example

- Commercial databases and industry analysts
- Suppliers web sites
- IP consultants
- Previous quotations
- Articles and reports
- Trade associations

Market research often reveals the coarse parameters such as NREs for a particular type or class of IP. These collectively may be used to define the pricing envelope into which the specific IP can be placed. In some cases price differentials related to performance and functionality may be determined. If such pricing envelopes exist and are in the public domain, they will precondition the market. Experienced buyers of IP will already know what

is being charged, and in general the commonplace types of licence and business models. This approach is clearly only possible in mature markets where custom and practise are established.

Base level pricing based on an acceptable return on investment

This approach is often used where there are no existing benchmarks and is used to set practical minimum below which the business is no longer viable. This base level price will still be compared, where possible, with broadly similar IP (relative positioning) in the market to provide an additional sanity check.

For this approach to be valid, the level of investment made in the development of the IP must have been typical: generally your customers will not fund your inefficiency. The definition and treatment of return on investment (ROI) varies between organisations but must be maintained at a respectable level to fund the ongoing business.

The rate of return must reflect the level of investment risk faced by businesses operating in the technology sector, which is much higher than for secure stocks. The licensor must first make a realistic assessment of development costs and sales – their investment. In the case of a start-up company, perhaps only having one piece of saleable IP, then this licensing revenue may be the only source of income before the next IP product becomes available. This scenario drives some interesting conclusions.

Some useful pointers:

- Development costs must include ‘productisation’ costs, including characterisation, the provision of tests, documentation, training, reference platforms etc, necessary to support the transfer and use of the IP, plus any costs incurred in the legal protection of the IP
- The financial support (ie cash flow) of the ongoing business is key
- The life cycle of IP is generally longer than any product using it, so choose a realistic period over which the returns must be made eg 5/7 years but also bear in mind the discounting effect of competition that might enter the marketplace
- A realistic sales forecast must be made of the number of licences to be sold over the period. It helps to consider a best and worse case basis to assist the final judgement. If the market is unable to sustain the base line pricing at this level of sales then the sales volume must be increased to provide the required returns. This may not be trivial.

This process leads to the establishment of a base price to which should be added the cost of sales including the cost of the negotiations, support and the cost of the technology transfer. This direct cost of sales is often forgotten, but must be included in the pricing calculation to ensure that the gross margins are maintained, and that the required total returns are generated.

Value pricing and deal value

In this approach the price is calculated through the consideration of the value of the deal to the prospective buyer. The buyer normally calculates the sales generated, and the profit

earned resulting from the use of the IP. If the IP price is too high, then the profit margin of the final product may be too low, despite achieving an acceptable level of sales. In other words, the value to the buyer over the lifetime of the IP is the cumulative incremental profit (buyer's return on investment) earned, less the cost of acquisition and maintenance.

This requires a good understanding of the customers and their markets. You should be aware, though, that this is a mandatory requirement of success in any product area and IP is no exception.

Some definitions:

Incremental profit: let us assume that the buyer licenses the IP to integrate and use in their products, leading to increased sales and profit. The additional or incremental profit earned will probably result from some of the following:

Increased volumes/revenue

A higher selling price resulting from improved functionality or performance

Lower manufacturing costs eg smaller, lower power, fewer connections, fewer variants

Improved packaging

More effective sales channels

This incremental profit is, however, reduced by the amount paid as royalties – the aggregate royalties reduce the incremental profit.

Acquisition costs: the buyer's investment in the IP extends to more than purely the cost of the licence and typically comprises the following:

The cost of the license

The cost of the evaluation and commercial transaction

The cost of the transfer and the learning process

The cost of ownership: includes the internal and external cost of maintenance and the cost of adapting the IP to a form usable by the licensee, including the manufacturing processes.

Before completing this section on commercial exploitation there are number of pitfalls to be avoided:

- a) Hidden costs: negotiations often focus on the explicit costs of the licence, NREs and royalties. There are a number of additional costs associated with an IP sale:
 - The costs of productising the IP. These are the costs incurred in preparing the IP for sale including documentation, thorough testing, test suites, and the preparation of the commercial package.
 - Legal costs and the costs incurred in negotiating the sale. Sound preparation is essential, in terms of the detail of the licence, the preferred business models and a well thought out negotiating strategy.
 - Transfer and support costs. These can be accounted for and priced as part of the initial licence, although it is common to negotiate a separate agreement covering support and maintenance.

- For small companies the issue of cash flow is almost always of primary concern. In this regard, the timing of the arrival of NREs, stage payments and royalties must be major considerations during the negotiation.
 - The cost of maintaining patents: Often patents are first filed in the UK and Europe, but will need to be extended to cover the countries in which the IP is to be licensed. The costs for doing this can be quite considerable, particularly if translation is required.
- b) Exclusivity: in granting exclusivity to a licensee the licensor foregoes all rights to use the IP themselves.
- c) Best terms or “Most Favoured Nation” (MFN) terms: this is often a requirement imposed by large corporations to ensure they always get the most favourable commercial terms during the life of the licence. It is reasonable to assume that both the IP and licenses have long lives, during which time royalty rates negotiated in new licences may fall. In this case any rate lower than that negotiated under these terms will also have to be applied to any existing licence containing such a clause.

Conclusions

Intellectual Property is often a significant intangible asset of your company, indeed it may be the most valuable asset you have, management and protection of your IP is of critical importance. It is critical to protect your IP *and the IP of others*, remembering that some simple procedures can help protect without adding excessive bureaucracy.

IP can be protected in a number of ways, legal and otherwise, but you must be aware that legal methods (such as patents) can be expensive and the business case should be examined carefully.

If you wish to trade your IP explicitly, remember that IP is a product like any other and must be prepared and supported accordingly – the quality of this has a significant impact on the sale value. Be careful not to be over-optimistic, the financial return from IP licensing may take rather longer than at first appears.

Finally, how you manage your IP is a **business** not a legal decision. IPR may well directly affect your income and the value of your company.

Appendix 1

Checklist for an IP management strategy

Identify the IP you are have or need (write down exactly what you have)	
Audit your usage rights (and any responsibilities)	
Any third party rights to your IP (joint developments, funded projects?)	
Ensure your confidentiality policy is up to date and observed	
Check terms of employment for all employees, make sure IP is properly assigned and post-employment responsibilities are clear	
Create a set of standard confidentiality agreements (agreed with your lawyers), establish and enforce the signature rules for your standard set and third party NDAs	
Make sure that engineering records are properly kept	
Establish a process to capture protectable IP (eg patentable inventions) and make a business decision on the protection actions	
Consider any technical protection techniques that may be appropriate	
Define your IP exploitation strategy (eg licensing)	
Choose the correct business model and licence types for any exploitation	
Make a careful valuation of your IP to establish pricing	
Take advice from experts (eg patent agents) before any major business decisions	
REMEMBER THAT IP MANAGEMENT IS A BUSINESS ISSUE, NOT A LEGAL ISSUE	

Appendix 2

Sample Non-Disclosure Agreement

NON-DISCLOSURE AGREEMENT

This Non-Disclosure Agreement, dated the [] day of [] [] by and between:

Company A: a company incorporated and existing under the laws of [] having a place of business at [], (hereafter referred to as [A]),

and **[Company B]:** a company incorporated and existing under the laws of [] and having its main place of business at [], (hereinafter referred to as [B]),

hereafter collectively referred to as the "Parties",

WHEREAS, [A] and [B] desire to exchange information in relation to [] in order to evaluate [].

hereinafter called the Project.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. CONFIDENTIAL INFORMATION under this Agreement shall mean any item or information pertaining to the Project, which is disclosed by one party (hereinafter referred to as the "DISCLOSING PARTY") to the other party (hereinafter referred to as the "RECEIVING PARTY") under this Agreement whether orally and/or in writing and/or in graphic or in electronic or electromagnetic form provided that it is marked or designated in writing by the DISCLOSING PARTY as being CONFIDENTIAL INFORMATION or if originally disclosed orally, provided that it is confirmed in writing as being CONFIDENTIAL INFORMATION by the DISCLOSING PARTY within thirty (30) days after oral disclosure.
2. The RECEIVING PARTY undertakes to apply to all CONFIDENTIAL INFORMATION at least the same degree of care with which it treats and protects its own proprietary information against public disclosure but no less than reasonable care. All such CONFIDENTIAL INFORMATION shall not be disclosed to any third party without the written consent of the DISCLOSING PARTY except as hereunder provided .
3. The RECEIVING PARTY undertakes to restrict its use of CONFIDENTIAL INFORMATION to the Project, to make no further or other use of the same and to ensure that dissemination of CONFIDENTIAL INFORMATION within its own

organization is made on a strict "need to know" basis. The RECEIVING PARTY shall ensure that all persons to whom CONFIDENTIAL INFORMATION is made available are aware of the confidential nature of such CONFIDENTIAL INFORMATION and comply with the terms and conditions of this Agreement relating to protection and use of CONFIDENTIAL INFORMATION.

4. *To be included if one of the companies needs to disclose to any of its affiliates.*

Notwithstanding the foregoing, due to the organization and structure of the [Company A Group] [A] reserves the right and [B] agrees, that [A] may disclose the CONFIDENTIAL INFORMATION of [B] to any of its Affiliated Companies on a "need to know" basis, and [A] shall ensure that such Affiliated Companies comply with the provisions of this Agreement. For the purposes of this Agreement, an Affiliated Company of [B] shall mean *Holding companies name xxxxx*, and any company now or hereafter owned or controlled directly or indirectly by xxxxx.

- 5.1 For the purpose of this Agreement, information shall not be considered to be CONFIDENTIAL INFORMATION if the RECEIVING PARTY can prove that such information is :

- a) in or passes into the public domain other than by breach of this Agreement ; or
- b) known to the RECEIVING PARTY prior to disclosure by the DISCLOSING PARTY ,
- c) disclosed to the RECEIVING PARTY by a third party having the full right to disclose,
- d) independently developed by an employee of the RECEIVING PARTY to whom no disclosure of CONFIDENTIAL INFORMATION has been made,
- e) approved for unlimited release or use by written authorisation of the DISCLOSING PARTY.

- 5.2 Disclosure by one party of the CONFIDENTIAL INFORMATION of the other shall not be precluded if such disclosure is in response to a valid order of a court; provided however that the RECEIVING PARTY shall first have made a good faith effort to obtain a protective order requiring that the CONFIDENTIAL INFORMATION so disclosed be used only for the purposes for which the court order was issued .

6. The obligations herein in relation to each item of CONFIDENTIAL INFORMATION of either party shall subsist for a period of [] years from the date of its disclosure, notwithstanding any termination of this Agreement, pursuant to clause 9 hereof.

7. Neither Party shall assign or transfer any of its rights or obligations hereunder without the prior written consent of the other Party.

8. Nothing in this Agreement shall be deemed to grant either party a license (to any intellectual property) directly or by implication under any patent, patent applications, copyright, design right (whether registrable or not) mask work rights, or trade secret right .

9. This Agreement shall have effect from the []. This Agreement may be terminated by either Party on sixty days (60) day written notice to the other provided, however, that no such termination shall serve to release either Party from its obligations as to confidentiality and use which shall remain in force in accordance with the provisions hereof.
10. In the event of termination, each Party undertakes to deliver to the other Party all the CONFIDENTIAL INFORMATION of the other Party, or to certify destruction thereof, at the requesting Party's option.
11. This Agreement does not limit either Party's rights as existing as of the date of its signature. It does not create any additional right or obligation which is not expressly included herein and in particular it shall not be deemed to create any obligation for either Party to enter into any further contractual arrangements of any kind.
12. Neither party shall decompile, disassemble or reverse engineer the CONFIDENTIAL INFORMATION or any part of it, of the other.
13. This Agreement embodies the entire understanding of the Parties and shall supersede all previous communications, representations, agreements or understandings, either oral or written between the parties relating to the subject matter hereof.
14. This Agreement shall be governed by and construed in accordance with the laws of England . Each Party agrees to submit to the jurisdiction of the Courts of England for the purposes of any suit, action or other proceedings arising out of this Agreement .

IN WITNESS WHEREOF, [A] and [B] have hereby executed this Non-Disclosure Agreement as of the day and year first written above.

Company A

Company B

Name:

Name:

Title:

Title:

Signature:

Signature:

Date:

Date:

Appendix 3

Simple Model Licence Agreement

This agreement is made this day of (the **effective date**) by and between:

Licensor whose principal place of business is at (hereinafter known as **licensor**).

And

Company X, having a place of business at (hereinafter known as **licensee**).

Whereas

Licensee wishes to licence technology known as the **technology**, subject to patent application filed in XXXXXX as number YYYYYYYY, from **licensor** and **licensor** wishes to grant such licence under the terms and conditions herein.

1. Licence

Licensor hereby grants to **licensee** a non-transferable, non-exclusive, world-wide right and licence under the Intellectual Property rights of **licensor**, to:

- 1.1. use and copy the Transfer Materials in Schedule 1 solely for the purposes of:
 - 1.1.1. creating and developing a single **technology** Compliant Product, defined as a system containing one **technology**, implemented with user hardware devices; and
 - 1.1.2. manufacturing, having manufactured, and selling, supplying and distributing a single **technology** Compliant Product;
- 1.2. modify, translate, reproduce and distribute the documentation identified in **Appendix A** except where any such documentation is marked confidential.
- 1.3. no right is granted to **licensee** to sublicense the rights licensed to **licensee** pursuant to Clause 1.1
- 1.4. Save as licensed in Clause 1, **licensee** acquires no right, title or interest in and to the **technology** core or deliverables.

- 1.5. No indemnity is granted or implied against any (patent or other) infringements contained within the **technology**
- 1.6. The **technology** will be deemed to be accepted by **licensee** 60 days from receipt of the deliverables if **licensee** makes no claim for non-performance to the protocol.
- 1.7. For the avoidance of doubt, **licensee** has no rights to modify, or have modified, the **technology**, without the express permission of **Licensor**.
- 1.8. For the avoidance of doubt, **licensee** has no rights to use the Transfer Materials in Schedule 1 for the design, development, manufacture or sale, without the express permission of **Licensor**.

2. Warranty

- 2.1. **Licensor** warrants that, for a period of three months from the date of this agreement, the **technology**, as delivered, will comply with the specification in Appendix B.
- 2.2. The **technology** and licensed materials are provided as is without warranty or condition of any kind, either express or implied with respect to merchantability or fitness for any purpose. In particular, **LICENSOR** does not recommend the use of the **technology** in hazardous or safety-critical environments, including medical equipment where failure could result in death or personal injury.

3. Consequential damage

- 3.1. IN NO EVENT SHALL **LICENSOR** BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES RESULTING FROM THE PERFORMANCE OR USE OF ANY INTELLECTUAL PROPERTY AND DELIVERABLES LICENSED OR ASSIGNED HEREBY.

IN WITNESS WHEREOF, the hands of the parties hereto or of their duly authorised representatives.

Signed for and on behalf of **licensee**:

Signed for and on behalf of **licensor**:

NAME of authorised signatory:

NAME of authorised signatory:

Title:

Title:

Signature:

Signature:

Date:

Date:

Schedule 1 – Transfer Materials

Appendix A – User Documentation and Support material

1. Application note describing the use of the **technology**.
2. User guide for the **technology**.
3. Interface description document.

Appendix B

1. Specification of **technology**, version a.b.c

Further Information and Resources

A primary source of help for issues associated with protecting your intellectual property is the EPPIC Faraday Partnership. We can be contacted on +44 (0)1223 892730 or by email at info@eppic-faraday.com. The website is www.eppic-faraday.com.

Useful information regarding patents and intellectual property can be found at the following websites:

<http://www.intellectual-property.gov.uk/>

<http://www.patent.gov.uk/>

<http://www.wipo.int/>

<http://www.european-patent-office.org/>

<http://www.uspto.gov>

<http://www.cipa.org.uk/home.html>

<http://www.oami.eu.int/en/design/default.htm>