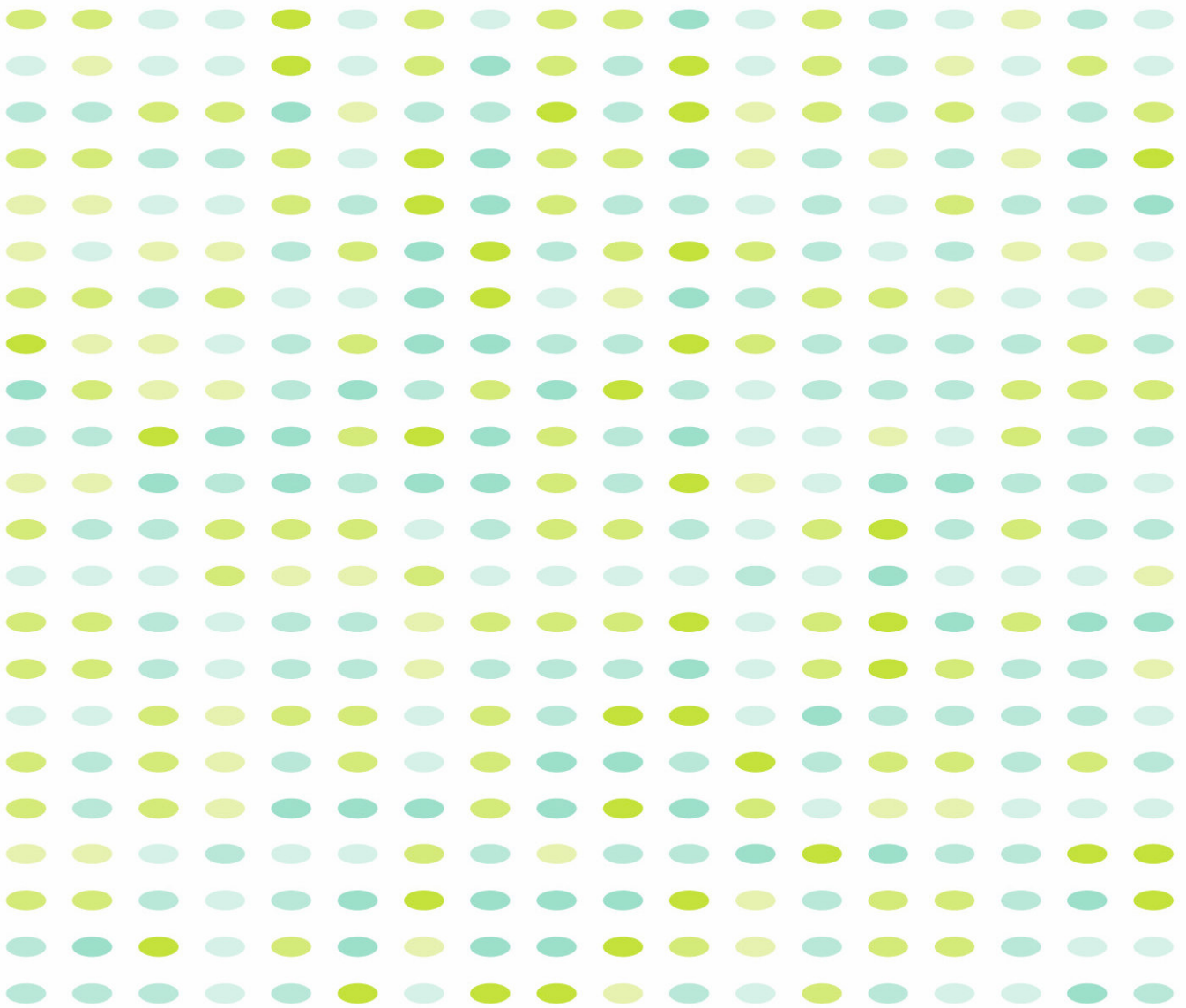


The SWAIN guide to Intellectual Property



In conjunction with:

Ashfords

The SWAIN guide to Intellectual Property

The South West Angel and Investor Network (SWAIN) connects private investors or “Business Angels” with companies looking for investments.

SWAIN specialises in helping small and medium sized companies to find equity finance, and assists private investors in the South West to search for investment opportunities in businesses with growth potential.

Why is intellectual property important when raising finance? Whenever you seek to raise finance you need to be able to demonstrate that you own or have sufficient rights to use the intellectual property employed by your business and that the risks of infringing someone else’s rights are low.

You need to understand what IP rights are, how they fit into your business, and how to manage them like any other important asset. This is a basic guide explaining the nature of some of the more important rights

What is ‘Intellectual Property’?

‘Intellectual property rights’, otherwise known as ‘IP rights’, protect innovative ideas, products, processes, designs, brands and concepts.

In the UK, there are four principal IP rights: patents, trade marks (both registered and unregistered), designs (both registered and unregistered) and copyright. Other rights include database rights, performers rights and the right to protect confidential information and know-how.

The aim and purpose of granting IP rights is to reward those who, inter alia, develop new brands and product ranges, create new visual designs (for example, for household and industrial articles), write books and original musical compositions, produce films and works of art and come up with new inventions and make scientific discoveries which are capable of being commercially exploited.

How do IP rights arise?

In order to obtain a patent, a registered trade mark or a registered design you have to apply for a certificate of registration. In the UK such applications are processed by The Patent Office.

Copyright and unregistered design right are automatically created when certain qualification criteria are met.

IP rights are, on the whole, territorial in nature so, for example, a trade mark registered in the UK will only provide protection from infringement in the UK. International protection of certain IP rights is available through a series of conventions, treaties and international agreements. Whilst it may not be essential in every situation, international protection may be critical if, for example, a product is to be actively marketed and sold in many overseas countries.

Ownership

Generally, the creator of a new invention, brand, design or other protected work will be the first owner of any IP rights that exist in that work. For example, if a company has built up a reputation in the market place, through the use of a distinctive brand name which distinguishes its goods and services from those of other businesses, the company will most likely own any unregistered trade mark rights in that brand name.

Where a new invention, brand, design or other protected work is produced by an employee in the course of his or her employment, the IP rights will most likely belong to his or her employer. The position is more complicated in the case of the ownership of any IP rights in a new invention, brand, design or other protected work produced by an independent commissioned third party, as this will often depend on the particular IP rights

concerned and the terms on which the contractor was retained. If the party paying for the work wants to ensure that it owns any IP rights arising from it, a written contract or deed stating this to be the case will be required.

Interaction of different IP rights

It is important to understand that various IP rights can exist in the same piece of work.

For example, in the case of an ice-cream maker:

- the mechanism by which the machine works may be protected by a patent
- the brand name under which the ice-cream maker is sold may be registered as a trade mark
- the overall visual appearance of the machine may be protected as a registered design
- the instructions leaflet may be protected by copyright

The purpose of this guide

Over the next few pages, we will aim to provide the reader with an outline understanding of the four principal IP rights, namely patents, trade marks (both registered and unregistered), designs (both registered and unregistered) and copyright. This guide is of general interest and is not intended to apply to specific circumstances. It should not be regarded as constituting legal advice and in relation to any issue or problem which a reader may have, they are encouraged and advised to seek bespoke legal advice from one of the IP specialists who form part of the Ashfords' IP team.

Patents

What is a patent?

A patent is the principal means of protecting a new invention, whether it is a new product (such as a new type of medicinal drug, or a new type of engine for a motor car) or a new process (for example, a new way of dry-cleaning clothes). It is regarded as the 'gold medal' of IP rights, due to the width of protection it gives an owner against its third party competitors.

Patents can also often protect a new use for an existing item. For example, in the field of pharmaceuticals the discovery of a new medicinal use for a known drug can be patentable.

Patents do not arise automatically. In the UK, it is necessary to apply to The Patent Office for a patent which covers the territory of the UK only. Applications for

patent protection in a number of European countries, including the UK, can be made via the European Patent Office in Munich.

Provided the application proceeds to grant (and the patent is not subsequently invalidated and the owner pays all renewal fees as and when due, for example at the end of the fifth year after the filing the application), the granted patent provides the owner with a monopoly right which enables him to prevent anyone else from making, using, selling or importing the product or process the subject of the patent for a period of 20 years from the date of application. In return, the invention is disclosed (via "publication" on a publicly available patent register) to the world and, once the 20-year period expires, anyone is free to work the invention, free of charge and without restriction.

On an international level, the UK is party to various international treaties and conventions, most notably, the Patent Co-operation Treaty ("PCT"), to which a significant number of other leading economic countries across the globe are also signatories, and the European Patent Convention ("EPC") to which (as its name suggests) most other European countries are also signatories. These treaties and conventions aim to make it easier and cheaper for a person of a 'member country' (for example, a citizen of the UK) to apply for patent protection in a range of different countries around the world, each of which have their own domestic patent laws.

The main difference between the PCT and the EPC is that, following the making of the initial application under the PCT, the applicant must then pursue his application for patent protection separately in each of the individual countries in which he seeks patent protection. Under the EPC system the application for patent protection in each of the nominated European countries is processed centrally by the European Patent Office, located in Munich.

Why apply?

A patent grants the owner a monopoly right over the commercial exploitation of his invention. It prohibits third parties from carrying out any activities within the scope of the 'claims' of the patent.

This is the case even if a third party develops their own invention, completely independently from the patent owner and whilst unaware of the existence of the patent, or the product or process covered by the patent. If the third party's invention falls within the scope of the claims of the patent, then its commercial exploitation will be an infringement of the patent and entitles the holder to damages and an injunction preventing any further commercial exploitation of the invention until the patent expires.

By comparison, UK common law protection of trade secrets and other confidential information does not extend to being able to prevent the exploitation of independently developed technology (i.e. that which has not been unlawfully copied) by third parties. The protection afforded by copyright and unregistered design right only assists if the owner of these rights can prove that the third party has copied the owner's original work.

A patent acts as a deterrent to third party competitors, who often either stay away from a particular technology or process because of the existence of a patent covering the same, or decide it is safer to acquire a licence from the patent owner - provided the latter is willing to grant one - and from which he may derive financially beneficial licence fees.

What is patentable?

To be patentable, an invention must be 'new' (i.e. it was not known anywhere in the world prior to the date the patent application was first filed), must involve an 'inventive step' (i.e. must not be obvious to a person skilled in the relevant art) and must be capable of being 'industrially applied'.

There are some specific exclusions, such as scientific theories and so-called 'discoveries', although any practical application of these may be patentable.

The applicant must first file an application form and pay the relevant fee. The application form must, amongst other things, set out a description of the invention, so that a person skilled in the relevant art would be able to make or use the invention.

In order to ascertain whether a product or process is truly inventive and novel, a UK Patent Office examiner conducts a 'prior art' search for anything which is identical or similar and which was in the public domain prior to the date of the first filing of the patent application.

Assuming the search results are acceptable and the applicant decides to continue, within the next year a more detailed application must be filed, defining the exact scope of the matter for which patent protection is sought (i.e. the 'claims') and including examples and technical drawings.

In the UK, approximately 18 months on from the initial application the more detailed application and the search results are published to the public, even though a patent has not yet been granted. Such early publication considerably restricts the possibility of deciding to withdraw an application and yet still keep the invention a secret, so any decision to withdraw should be made before publication takes place.

Thereafter, the applicant must request a substantive examination of the patent application, for which a further

fee is payable. At this stage, the ways in which the claimed invention differs from any cited prior art will be discussed and, after negotiation with the examiner as to the scope of the claims, a patent is often granted, again on payment of a further fee. The patent is then published. If the examiner refuses to grant a patent, there is a right of appeal.

Key points to remember

- In order to avoid wasting time and money filing an application for a patent which will (ultimately) not be granted because the invention is not 'novel', it is sensible in advance of filing an application to consider either personally conducting a preliminary 'prior art' search, or to conduct one via the Search and Advisory Service at the UK Patent Office or via a solicitor or patent agent.
- Keep your invention a secret until after you have filed a patent application. It is important that any information about the invention does not enter the public domain, whether in writing or by word of mouth, before the patent application has been filed. If not, you may end up not being granted a patent.

Trade Marks

What is a trade mark?

A 'trade mark' can be any sign, capable of being represented graphically, which is able to distinguish the goods or services of one business from those of other businesses.

In a commercial context, a 'trade mark', such as a brand name or a logo, enables consumers to know that goods and services bearing that trade mark have come from a single source, which is responsible for the quality and appearance of the goods and/or services bearing the trade mark. A trade mark also enables a brand owner to establish brand loyalty, as consumers are continually reassured by the appearance of a particular trade mark on a certain product/service that the product/services will have certain qualities. For example, if you see the word 'Coca-Cola' on a menu in a restaurant, when you order one you know exactly what you will get.

A trade mark can take the form of words, slogans, colours, designs, letters, numbers or even sounds.

Trade marks are protected in the UK in two principal ways. The best form of protection is to seek to register them as UK registered trade mark for the goods and/or services for which they are used. Also, 'common law' rights in a trade mark can be created through the use of

that trade mark in trade. Such rights are protected through the tort of "passing-off".

Registering a trade mark in the UK gives the owner the exclusive right to use that mark in relation to the goods and/or services for which it is registered, entitling the owner to bring an action for registered trade mark infringement if someone else uses an identical trade mark for identical goods/services. The owner also has the right to prevent someone else using a similar or identical trade mark for similar or identical goods/services where there is a likelihood of confusion. In some circumstances, a registered trade mark owner may even be able to prevent someone else from using a similar or identical trade mark for non-similar goods/services.

"Passing off" actions are usually more complex and expensive than actions for registered trade mark infringement, as the owner not only has to show that the allegedly infringing mark has caused or is likely to cause confusion between his products and/or services and those of the alleged infringer (resulting in damage to his business), but also that he has built up a reputation and trading goodwill in his trade mark, which may be difficult if the owner's use of his mark is relatively new or small.

Businesses wishing to exploit markets outside of the UK can register their trade marks on a country-by-country basis, filing individual trade mark applications in the relevant countries concerned. Alternatively, or in addition, they could apply for a Community Trade Mark (which is a supranational right), that provides registered trade mark protection throughout the entirety of the EU. They could also apply to register their trade marks in a number of overseas territories by way of a single application, using the Madrid Protocol system, which is operated by the World Intellectual Property Organisation, based in Geneva.

UK registered trade marks initially last for 10 years from the date of filing the initial application. Unlike patents, they can be renewed indefinitely on payment of the renewal fees, as and when these are due (which at present is every 10 years).

How to register

In the UK, the first step is to apply to the Patent Office using the required form providing, amongst other details, a graphical representation of the mark and stating the classes of goods and services for which the applicant intends to or already uses the trade mark.

The Patent Office will then provide an official receipt, before conducting a fuller examination of the application. During the examination stage so-called 'absolute grounds' and 'relative grounds' for rejecting the

application are considered. Examples of 'absolute grounds' for rejection include where the mark:

- lacks distinctiveness
- is descriptive (i.e. it consists of signs or indications which say something about the goods/services for which the mark is to be registered or their characteristics, such as their quality or quantity)

A mark may acquire distinctiveness through use, but evidence will need to be produced of this.

'Relative grounds' for rejection include where there are earlier identical or similar marks already in existence, which are either being used in trade or are registered as trade marks.

If the examination stage reveals any problems, the examiner will send a report to the applicant, setting out his objections and giving him a period of time in which to respond. Evidence in support of the application may be required if these problems are to be overcome, and/or possibly the permission of the owner of an earlier conflicting mark, before the latter mark can be registered.

If the objections cannot be overcome and the applicant does not withdraw his application it will be rejected by the Patent Office. This is subject to an appeal process.

If the application survives the examination stage, the Patent Office will then advertise the application in the Trade Marks Journal and, for a period of three months thereafter, any interested parties can raise any objections they have to the application proceeding to registration, either by submitting 'observations' or by taking the more formal step of launching opposition proceedings.

If there are no objections, the mark will proceed to registration and a certificate of registration will be issued to the applicant.

Copyright

What is copyright?

Copyright looks to protect the authors of 'original' qualifying works, by preventing others from copying, disseminating and adapting the whole or a substantial part of those works without first obtaining the author's permission. If they do not do so, the copyright owner has the right to claim damages and an injunction preventing any further unlicensed activities.

The types of work protected by UK copyright include original literary, dramatic, musical and artistic works, sound recordings, films and broadcasts and the typographical arrangement of published editions.

Examples of qualifying works range from letters, scientific papers, magazines, books, novels, plays, poems, photographs, drawings, sculptures, works of art and musical compositions. These works must be 'original', in the sense of not being copied from another earlier source and being the product of the author's own skill, labour and judgment.

In general terms, copyright protection lasts for the life of the author plus 70 years, although there are a number of exceptions to this rule, for example in relation to sound recordings.

Copyright does not provide the owner with a monopoly right, in the way that a patent or trade mark does. Another person's work may be similar or even identical to the copyright owner's work, but if the latter has not been copied then no action for copyright infringement will exist.

Copyright also only protects the form in which ideas are expressed, not the author's ideas, thoughts or concepts per se.

It is also worth noting that there is some overlap between copyright and designs law. For example, whilst copyright prevents the photocopying of a drawing for the design of an industrial article it does not prevent the actual manufacture of an industrial article to the design. This is something that is addressed separately through the law of designs.

UK copyright works are protected overseas pursuant to the provisions of several copyright conventions and treaties, such as the Berne Convention, the Universal Copyright Convention, the Rome Convention and WIPO treaties.

Moral Rights

These are a set of rights which apply to certain types of copyright work. As they are personal in nature, they cannot be assigned to someone else. In general terms, these rights entitle the original author/participants of certain copyright works:

- to be identified as the author or director of that copyright work (the "right of paternity");
- to object to derogatory treatment of that copyright work (the "right of integrity");
- the right not to suffer false attribution of a copyright work; and
- to privacy in respect of certain films and photographs

Moral rights need to be considered in any commercial transaction involving copyright works and a waiver of moral rights may in some cases be required.

How is copyright created?

In the UK, copyright protection arises automatically when certain qualifying criteria are met. There is no need to "apply" for copyright protection.

Although not required under UK law, it is advisable to mark any copyright work with a © symbol, followed by the name of the author and the year of first publication. This should deter any unauthorised copying and will assist in proving the date of creation and the name of the author and first owner of the copyright work.

We also recommend that, in order to provide evidence of ownership and the date of first creation, authors should send a copy of the work to their solicitor and/or send a copy to themselves by special delivery, leaving the post-dated envelope unopened once received, and kept it in a safe and secure place for future reference if and when needed.

Designs

UK designs law aims to protect the visual appearance of products and their component parts.

There are two forms of 'design' protection available in the UK – registered designs and unregistered designs. As you would expect, the former involves a formal registration procedure, whereas unregistered design protection arises automatically, provided certain qualifying criteria are met.

Unregistered Designs

In the UK, there are two forms of protection available under UK designs law for unregistered designs.

The first is known as "design right". This prevents the shape and configuration (whether internal or external) of the whole or part of an article from being copied without the permission of the owner of the design right.

To qualify for design right protection the design must be 'original' (i.e. not copied and not commonplace) and must be recorded in a design document (for example, in a drawing) or be the subject of an article made to the design.

Design right does not extend to features of shape or configuration which allow an article to fit with another article, so that either article is able to carry out its intended function. Also, it does not extend to features of shape or configuration which are dependent on the appearance of another article of which the article is intended to form an integral part. These are known as

the 'must fit' and 'must match' exceptions. Nor does design right cover mere surface decoration.

Although design right arises automatically, it is nevertheless advisable to keep a note of by whom and when the design was first created and when articles made to the design were first marketed.

Design right protection only lasts for a maximum of 15 years, and in many cases less than this.

Reciprocal design right protection is available overseas, but is limited to a relatively small number of qualifying countries, including the Channel Islands and the Isle of Man, New Zealand and the British Virgin Islands.

The second form of protection available in the UK is an "unregistered community design" ("UCD"). This right lasts for a maximum period of three years and prevents third parties from copying a design the subject of a UCD, without first obtaining the permission of the owner of the UCD.

The definition of a design that qualifies as a UCD is much wider than the definition of a design that qualifies for UK design right. It covers the appearance of the whole or part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture or materials of the product or its ornamentation. In this case, 'product', means any industrial or handicraft item, and includes packaging, get-up, graphic symbols and parts intended to be assembled into a complex product.

In order to qualify, a design must be 'new', that is, the same or a substantially similar design must not have been published or made available anywhere in the world beforehand and it must also have 'individual character', meaning that it must give a different overall impression, as compared with previous designs, to an 'informed user' (i.e. someone who is familiar with designs in the relevant field, but not necessarily a designs expert).

The protection relates to the design itself, so it is not limited to any particular product to which it is first applied by the owner of the registered design. There are, however, certain specific exclusions. For example, the 'must fit' exception, as discussed above, also applies here.

Again, as with 'design right', although UCD arises automatically, it is nevertheless advisable to keep a note of by whom and when the design was first created and when articles made to the design were first marketed.

Neither 'design right' or 'UCD' protection results in a monopoly right. As with copyright, both only enable the owner to prevent unlicensed third parties from copying the design. This means that if a third party independently creates an identical or very similar design, it will not be an infringement of the owner's design right or UCD.

Registered Designs

A registered design protects the two and three-dimensional appearance of the whole or part of a product resulting from the features of, in particular, the lines, contours, shape, colours, texture or materials of the product or its ornamentation.

In order to qualify, a design must be 'new', that is, the same or a substantially similar design must not have been published or made available anywhere in the world before an application is made to register the design and it must also have 'individual character', meaning that it must give a different overall impression, as compared with previous designs, to an 'informed user'. As with UCD, the protection relates to the design itself, so it is not limited to any particular product to which it is first applied by the owner of the registered design. Again, as with UCD, there are certain specific exclusions. For example, the 'must fit' exception, as discussed above.

The right itself grants the owner the exclusive right, inter alia, to manufacture and sell items in which the design is incorporated and, unlike for design right and UCD, to issue infringement proceedings even where there is no proof of copying. It is a true 'monopoly' right.

Provided the owner pays the renewal fees every five years, registered design protection can last for up to 25 years in total.

On an international level, designers can apply for a Community Registered Design (which covers the entirety of the EU). The Paris Convention, of which the UK (and many other countries worldwide) is a signatory, also allows an applicant for a registered design in one Convention country to apply within 6 months for equivalent registered design protection in other Convention countries, whilst still taking the benefit of the same filing date as the initial application.

How to apply

In the UK, the two main requirements when filing an application are an accurate and complete visual representation of the design (e.g. a drawing or photograph) and an explanation of the type of products to which it is intended to be applied. This later requirement enables an examiner to search for relevant 'prior art', but does not limit the design to any given product.

If the design is three-dimensional, or purely decorative in nature, the visual representation should show the design as applied to the product from different angles, clearly labelled and including footnotes where appropriate. Repeated surface patterns should be represented with enough of the 'repeat' to show how the pattern works as a whole. The completed application form and relevant fee should be sent to the UK Patent Office.

Conclusion

Whenever you seek to raise finance you need to be able to demonstrate that you own or have sufficient rights to use the intellectual property employed by your business and that the risks of infringing someone else's rights are low. Similarly if you are thinking of investing in a private company or looking to acquire a business then you should ensure that the intellectual property is protected as claimed.

In all cases you should take early and appropriate professional advice.

www.swain.org.uk

Or if you would like to discuss any of the issues raised in this guidance note, please contact any of the following at Ashfords solicitors, which have prepared this guide:

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