EE-402a Topics in International Technology Management

Fall 2006 - Intellectual Property Management for Technology Businesses in Asia

Today:

Setting Up Technology Development Operations in China
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   DermaCare
ThermaClear
Acne
Treatment
DermaCare Mission

Developing medical and cosmetic treatments for the direct to consumer and retail channels.
ThermaClear
Device Based Acne Treatment

- Patented technology
- High heat
- Short duration
- No burning / discoloration
- Mechanism:
  - Anti-inflammatory response?
  - Heat shock proteins?
Clinical Results
Pimples Resolve in 2 – 4 Times Faster

* Or, “two to four times faster”
WHY CHINA?

- Low costs
- Qualified scientists and engineers
- Large market and manufacturing capacities
- Low corporate tax
- Government incentives
- Adequate infrastructure
WHY NOT CHINA?

- Political and economic instability
- Lack of rule of law
- Lack of IP protection
- Government interference
- China’s trade relationship with other countries
- Discrimination against foreign companies
- US export controls
ThermaClear in China
Low Cost, But with IP Risk

• China obvious source for manufacturing
  • Low cost – tooling and per unit
  • Readily available materials
  • Scalable volumes and costs

• Clear risks
  • “Back door” production
  • Reverse engineering / design theft
  • Counterfeiting
  • Trademark theft
ISSUES

- Form of company
- Location
- Employees
- IP protection
- U.S. export controls
- Chinese export controls
- Tax law
- Land and facilities
FORM OF COMPANY

- Representative office
- Branch office
- Joint venture
- Wholly foreign owned enterprise
FORM OF COMPANY

- Legal activities of a representative office
  - Market research
  - Business promotion
  - Facilitate business transactions
  - No capitalization requirements
FORM OF COMPANY

- Branch office
  - Similar to parent company’s sales and marketing department in China
  - Permitted to engage in commercial activities
  - Subject to onerous capitalization requirements
Joint venture

- Relatively long application process
- Independent legal entity
- Required in some sectors
FORM OF COMPANY

- Wholly foreign owned enterprise
  - Full management and operational control
  - Greater IP protection
  - Continuity of operation
LOCATION

- Coastal areas v. interior areas
- Large cities v. small cities
- Availability of qualified engineers and managers
- Government subsidies
- Infrastructure
EMPLOYEES

- Employment Law
  - Written employment contract
  - Term of employment
  - Confidentiality
  - Termination
  - Length of workweek, overtime, and holidays
  - Disciplinary actions
  - Dispute arbitration

- Assignment of IP rights
  - Patent ownership under Patent Law

- Confidentiality agreement

- Non-compete agreement
  - Two-year limit
  - Compensation
IP PROTECTION

FORMS OF INTELLECTUAL PROPERTY

- Patents
- Trademarks
- Copyrights
- Trade secrets
- Knowledge and experience
IP PROTECTION

- Registration of IP rights
- Contractual protection
- Technical controls and access
- Monitoring use and misuse of IP
- Enforcement
IP PROTECTION

REGISTRATION OF IP RIGHTS

- Patents
  - Invention patents
  - Utility models
  - Industrial designs

- Trademarks
  - Well-known marks
  - Registered marks

- Copyrights
IP PROTECTION

CONTRACTUAL PROTECTION OF IP RIGHTS

- Controls packaging and labels
- Requires that rejects be destroyed
- Prohibits diverted product and overproduction from getting in the marketplace
- Prohibits or limits subcontracting
- Addresses post-termination treatment of technology
- Allows for IP and technology audits
- Limits access to technology
- Binds employees and anyone with access
- Prohibits Chinese party from registering IP rights
IP PROTECTION

TECHNICAL CONTROLS AND ACCESS

- Carefully select business partners and employees
- Disclose only necessary information in technical specifications and manuals
- Limit access to technology on need-to-know basis
- “Don’t put all your eggs in one basket”
  - Compile source code in U.S.
  - Keep design, manufacturing, supply, repair and maintenance of key components in U.S.
IP PROTECTION

MONITORING USE AND MISUSE OF IP

- Competing products
- “Your own” products
- Competitors
- Your business partners
- Your own employees
- IP rights registered by your competitors, customers, partners and employees
IP PROTECTION

ENFORCEMENT

- Enforce your IP rights!!!!
- Courts
  - Generally fair and efficient courts
  - Competent judges
  - Insufficient monetary damages
- Enforcement of court judgment
  - Difficult to enforce court judgment against small companies and individuals
  - Generally adequate enforcement against large companies
Protecting China Development Efforts

• Areas of China Development
  • Supply chain management and specification
  • Product design
  • Tooling
  • Manufacturing process design & engineering

• Protection - balance legal with business
  • Contractual clauses
  • Limiting scope vs. functioning partnership
  • Right partner
Protecting IP: Pick Right Partner(s)

- Trusted manufacturer
- Focus on reputation, not lowest cost
- Large US and Euro customer base
- Strong IP protection processes
- Hong Kong company, China operations
Plan for Success, Prepare for Action

• Stateside
  • File trademarks USPTO
  • Register with Customs

• China & Hong Kong – first to file!
  • File patents
  • Register trademarks in English and Chinese
  • Register designs

• Invest in vigilance
Export license is required for export of certain items to certain users for certain uses in certain countries

- Export: mail, facsimile, upload or download, email, and telephone conversion
- Items: commodities, software, technology, and information
- Penalties: administrative, civil, and criminal penalties for non-compliance
THANK YOU!