

Protection of Intellectual Property and Structuring Transactions in China

Presented by

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Agenda

- Introduction
- IP Protection in China
- Licensing or Joint Venture model
- Structuring international transactions

Setting up a Business in China

- **Equity Joint Ventures**
- **Cooperative Joint Ventures**
- **Foreign Stock Company**
- **Wholly Foreign-Owned Enterprises**

Wholly Foreign-Owned Enterprise Advantages:

- Freedom to implement worldwide strategies of its parent company without having to consider the involvement of a Chinese partner
- Ability to formally carry on business rather than just a representative office function and capable of issuing invoices to their customers in RMB (Chinese Currency) and receive revenues in RMB

Wholly Foreign-Owned Enterprise Advantages:

- Capable of converting RMB profits to US dollars for remittance to their parent company outside China
- Protection of intellectual know-how and technology (???)
- Greater efficiency in its operations, management and future development.

Wholly Foreign-Owned Enterprise Details:

- Activities limited to “Business Scope”
- Minimum capital: HKD 1,000,000 (~USD 120,500)
- Corporate tax rate range 15% - 31% (depending on location; Shenzhen among lowest in region)
- Annual return requirement (annual fee of USD 300)
- Term: typically 15 – 30 years, up to 50 years
- Termination: may be terminated if sustain heavy losses or event of force majeure

Wholly Foreign-Owned Enterprise Procedure:

- Reserve name (Name Pre-registration)
- Project Proposal
 - Purpose, scope & scale of business, financing & forecasts, tech & equipment used, land use req'ts, personnel & wages, etc.
- Examination & Approval
 - Written application, feasibility study report, articles of association, credit certificate, etc.

Wholly Foreign-Owned Enterprise Procedure:

- Register for business license
 - Within 30 days after receipt of approval certificate
- Registrations with other Gov't Authorities
 - Tax bureau, Foreign Exchange Control, Customs, etc.

Total estimated time: 2-3 months

China Legal System

- Trademark Law (1982)
- Patent Law (1984)
- Copyright Law (1990)
- Regulations regarding Computer Software, Copyrights Treaty, Technological Contract Law and others
- Treaties

Enforcement remains a big problem

Intellectual Property Strategy

- Register Patents
- Copyrights
- Trademarks
- “Protect and defend” against infringers

Trade Secrets

- No clear protection of trade secrets
- Contracts must be clear and enforceable under local law
- Do you trust your partner and/or employees to “keep a secret”?

Patent Requirements

- **Inventions, utility, and exterior design**
- **Nothing similar in China or abroad public before patent application date (treaty exception)**
- **No public disclosure before filing application**
- **6 month exception for certain government sponsored tradeshows and academic disclosures**

Patent Ownership

- **“Service inventions” (comparable to “work product” in U.S.) belong to employer**
- **Co-inventors share non-exclusive rights**

Patent Applications

- Chinese language
- Applications based upon foreign invention and utility applications must be filed within 12 months of foreign application date
- Design applications must be filed within six months
- Treaties may supersede
 - Patent Cooperation Treaty
 - Paris Convention

Patents Life

- **“Inventions” term is 20 years**
- **“Utility” and “design” term is 10 years**

Trademark Protection

- Must register a mark to obtain exclusive rights (unlike U.S.)
- Must be used in commerce and not “confuse” the public
- Term is 10 years with 10 year renewals
- Paris Convention gives priority to original application date in member locations (including U.S.)

Copyrights

Copyright law covers

- Written literary works
- Orally delivered works
- Music, drama and dance works
- Artistic and photographic works
- Film, TV and video works
- Engineering design and product blueprint
- Graphic works
- Computer software

Copyrights

- The author is the owner, including service-connected work, but employer has a 2 year priority use before author may use the work
- Copyright lasts for lifetime of author plus 50 years

Software Protection

- Applies to “programs” and “files”
- Chinese developers have priority regardless of release locations
- Foreign developers have priority if first release is in China, otherwise only protection is pursuant to treaties
- Term is 25 years plus a 25 year renewal

Structuring Transactions

Joint-Venture with a Chinese Partner

- Capital
- Technology Transfer
- People
- Confidentiality contract
- Territory specific

Structuring Transactions

Licensing

- **Maintain ownership of technology and improvements**
- **Performance based royalties**
- **Confidentiality contract**
- **Territory specific**

Contracts to restrict third party access to IP should include

- No competition
- No solicitation of customers, suppliers or employees
- No disclosure of confidential information
- No reverse engineering
- IP improvements stay with company
- Injunction and restraining orders; damages
- Choice of law & venue for litigation – U.S., China or somewhere else?
- “Terms and conditions” on all invoices and purchase orders should include IP protection
- Know-how and Trade Secrets

Tax Structure

U.S. Entity



U.S. Subsidiary



Tax Shelter Foreign Entity



China Entity

Questions?

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