Business briefing series

20 issues on intellectual property
The Institute of Chartered Accountants in Australia (the Institute) is the professional body representing Chartered Accountants in Australia. Our reach extends to more than 67,000 of today’s and tomorrow’s business leaders, representing more than 55,000 Chartered Accountants and 12,000 of Australia’s best accounting graduates currently enrolled in our world-class Chartered Accountants postgraduate program.

Our members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 109 countries around the world.

We aim to lead the profession by delivering visionary leadership projects, setting the benchmark for the highest ethical, professional and educational standards, and enhancing and promoting the Chartered Accountants brand. We also represent the interests of members to government, industry, academia and the general public by engaging our membership and local and international bodies on public policy, government legislation and regulatory issues.

The Institute can leverage advantages for its members as a founding member of the Global Accounting Alliance (GAA), an international accounting coalition formed by the world’s premier accounting bodies. With a membership of over 800,000, the GAA promotes quality professional services, shares information, and collaborates on international accounting issues.

Established in 1928, the Institute is constituted by Royal Charter. For further information about the Institute, visit charteredaccountants.com.au
Most business leaders are acutely aware of the importance of thinking creatively and innovatively in today’s market place.

In order to ensure that businesses maximise the benefit of their innovative concepts, ideas and designs, it is vital to understand the best way to protect and manage these intellectual property (IP) assets.

The effective management of IP can benefit businesses in a number of ways, assisting them to build wealth and grow through commercialisation opportunities, develop a strong brand and business reputation and minimise the risk of copycats, which can ultimately erode market share.

However, while most businesses are aware of the need to identify and protect their physical assets, they are likely to be less familiar with IP. This is despite the reality that IP is now being recognised as one of the most valuable assets a business can own.

In order to make understanding the topic a little easier, the Institute has partnered with IP Australia to provide guidance in this leadership paper, Business briefing: 20 issues on intellectual property.

As the Australian Government agency responsible for administering IP rights and providing a strong IP system for the benefit of all Australians, IP Australia is well placed to provide guidance in this area.

This paper covers a range of issues relating to IP and discusses them in four sections:

• Identifying and managing your IP
• Commercial issues and IP
• Financial aspects
• Emerging issues – IP and social media.

Business briefing: 20 issues on intellectual property is the fourth publication of the Institute’s Business Briefing Series, written to assist business leaders and financial professionals in understanding and managing challenging issues in the business world.

Given the massive growth and interest in IP right across the globe, I hope this paper assists you in improving your understanding and management of IP and, as a result, providing your business with the best opportunities for growth in the future.

Rachel Grimes FCA
President
Institute of Chartered Accountants in Australia
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Introduction

Intellectual Property (IP) is a broad term that describes the application of the mind to create something new or original. Collectively defined as patents, trade marks, industrial designs, plant breeder’s rights, copyright and/or trade secrets, IP is an important asset in today’s global knowledge economy and should be strategically managed.

Protecting and managing your valuable IP assets is particularly critical when establishing your product or service in the market and is often the difference between an organisation’s success or failure.

Registered IP rights serve as an incentive to reward innovation by providing IP creators and owners with the time and opportunity to exploit their creation. They also limit competition in certain circumstances, for varying periods and in various ways.

In this way registered IP rights:
- Reward the innovator’s effort and skills
- Encourage innovation activities which benefit society
- Promote wider access to innovation, thereby advancing further research and development by others
- Protect a person’s right of ownership in their intellectual pursuits.

However, IP rights exist in many forms and in some cases they don’t need to be registered in order to be of value. There are forms of IP that can be protected without a formal registration process.

In recent years there has been an increase in demand for IP rights world wide as illustrated below.

Growing Interest in Patents (world wide)

![Graph showing patent applications filed over years](Source: WIPO Statistics Database)
Growing Interest in Trade Marks (world wide)

Each type of IP provides different competitive advantages for its owners and new commercialisation opportunities for organisations, but IP isn’t just for big business – understanding IP and developing an IP management strategy is just as important for small organisations as it is for large innovators.
Management issues

There are steps you can take to understand the different types of IP protection available, and the best strategies for your circumstances.

IP rights are like tools in a toolbox – each right has different features and uses, and is suited to different circumstances and objectives. It is important for your organisation to effectively protect and value its IP assets to gain maximum benefit. To do this, you may need to seek advice on your situation from an IP expert such as a trade mark or patent attorney who can help you protect and exploit your rights.

1. What can be registered and what can’t?

To help you identify which IP rights are relevant and most advantageous to your organisation, the different types of IP are described briefly below. Broadly, IP rights fall into two categories:

- Registered rights, requiring a formal process of application, examination and registration
- Unregistered rights, which automatically come into play without the need for a registration process.

Registrable Intellectual Property: Patents, Trade Marks, Designs and Plant Breeder’s Rights

**Patents**

A patent is a right granted by the government within a country in relation to an invention.

This right allows you to exclude competitors from copying, exploiting, or benefiting commercially from the invention in that country. A common misconception is that you can apply for a worldwide patent on an invention. This is false. An Australian patent provides protection only in Australia. For example, if you register your patent only in Australia, then an overseas manufacturer may still copy it and produce your product and sell it to overseas countries, however they could not sell the product in Australia, due to the protection from the Australian patent.

Before filing a patent application in any country (even Australia), it is important to consider your market, your ability to effectively exploit your invention, the benefits of protection and the strength of your rights in these jurisdictions.

Your decision to lodge a patent application is largely a commercial one. You need to ascertain whether the potential income from the invention is greater than the cost and time involved in gaining patent protection.

**Tip: International Patents**

To obtain patent protection overseas, you need to file separate patent applications in each country. This can be a cost effective solution when you only intend to file in a few countries. Alternatively, you can choose to file an international application under the Patent Cooperation Treaty (PCT).

The PCT is administered by the World Intellectual Property Organization and provides you with the means to seek protection in up to 180 countries with the one application. One of the benefits is that this allows you more time to decide whether you want to pursue patent protection and in which countries. Whichever option you choose, you will still end up with separate patent applications for each country.

**Fast facts: Patents**

- There are two types of Patents: ‘innovation’ and ‘standard’. The term of an Innovation Patent is eight years, and 20 years for a Standard Patent. Eligible pharmaceutical Standard Patents receive protection up to 25 years
- Australia has been a member of the PCT (Patent Cooperation Treaty) since 1980
- The average estimated cost of an Australian standard patent, including attorney fees, is between $8,000 and $12,000, depending on the complexity of the application.
Trade Marks

A registered trade mark can protect elements of your brand such as a product name, tag line or logo. In this way, a trade mark helps to distinguish a specific product or service from a competitor’s product or service. By doing so, you can create customer loyalty and this enables the product or service to compete more effectively with other similar goods.

Over time, the equity in your brand will grow; this is often worth protecting.

Tip: Trade mark coverage

Goods and services for trade marks are divided into different classes according to an international classification system. There are 45 classes, each covering a range of goods and services such as vehicles and their parts, toys and sporting equipment.

When you apply to register a trade mark, you will need to nominate (and pay for) at least one class of goods and services. For example, Holden safeguards its automotive parts and its range of clothing merchandise by filing a trade mark in two different classes. Consider carefully which class or classes to choose because you only get coverage for the goods and services nominated in that class. If you want to add more classes later (for example, if your product range expands) you’ll need to make a new application. So in this case, unless Holden have registered their trade mark in the drink category, someone else may be able to register a ‘Holden supercharged soft drink’.

By being aware of the different product classes, you can strategically manage your plans for growth. Organisations may wish to consider registering their trade mark in additional classes.

What is the difference between the trade mark symbols ™ and ®?

You may use the ® (registered symbol) next to your trade mark once your trade mark is registered. If your trade mark is registered overseas but not in Australia, you can also use the ® symbol, but you need to show the country of registration close to it.

Anyone can use the ™ symbol, but this does not indicate that the trade mark is registered but that the owner is claiming the word or mark as a trade mark under common law.

Fast fact: Trade Marks

- Trade Mark registration lasts for 10 years from the date of filing and can be renewed indefinitely
- Applications cost from $120 per class if filed electronically, otherwise $180. Registration fees per class are $250 (GST does not apply to these statutory fees under Division 81 of the GST Act 1999)
- Australia joined the Madrid Protocol relating to international registration of trade marks on 11 July 2001.

Registered Design

A registered design protects the appearance and visual features of a product, but not how it works. It protects the shape, configuration, pattern or ornamentation which gives a product its unique appearance. If you have created a three dimensional design for industrial purposes such as product packaging, you will usually need to register it as a design in order to receive protection.

Items typically registered as a design include items of clothing, jewellery, furniture and household goods.

Tip: Claim your registration

You may notice many products have the text ‘Regd design’ followed by a series of numbers. This indicates that the design owner has registered their design and acts as a warning to ‘would be’ copycats. Beware, however: it is an offence to claim your design is registered when it isn’t.

Fast fact: Design registration

- Registration lasts for an initial term of five years, renewable for a further five years (maximum of 10 years)
- Applications cost $200 per design; renewal for the second five year term is $275. Examination costs $360
- Australia belongs to an international treaty called the Paris Convention, which can make the process of design registration in other countries easier.
Management issues (continued)

Plant Breeder’s Rights

Plants have been selectively bred for thousands of years, culminating in the incredible yields, quality and resistance that we see in our modern day crops. Plant Breeder’s Rights (PBR) are a form of IP that protects breeders of new plant varieties by granting them exclusive commercial rights to produce, reproduce, condition, sell, import, export and stock their variety.

Table 1: Registered Intellectual Property Rights Summary

<table>
<thead>
<tr>
<th>What’s protected?</th>
<th>Type of IP protection</th>
<th>What it means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventions and new processes</td>
<td>Patent</td>
<td>A patent protects how an invention works or functions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Examples:</strong> The Polymer bank note and the Black Box Flight Recorder are patented products.</td>
</tr>
<tr>
<td>Logos, words, numbers, colours, phrases, sounds, scents, shapes, pictures, aspects of packaging or any combination of these</td>
<td>Trade mark</td>
<td>A trade mark identifies the particular goods or services of a trader as distinct from those of other traders.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Examples:</strong> Sunbeam, Holden, Driza-bone, Mortein, Bonds and Weet-Bix.</td>
</tr>
<tr>
<td>A product’s appearance</td>
<td>Registered Design</td>
<td>The visual appearance of a product is protected, but not the way it works.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Examples:</strong> The Speedo Fastskin full body swimsuit and the Albion cricket helmet are classic Australian designs that have been registered.</td>
</tr>
<tr>
<td>New plant varieties</td>
<td>Plant Breeder’s Rights</td>
<td>This protects the commercial rights of new plant varieties.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Examples:</strong> Cotton plants with insect resistance and the pink iceberg rose – all of which are protected by plant breeder’s rights.</td>
</tr>
</tbody>
</table>

Tip: Your PBR Application

PBR applications must be submitted by the original breeder, by someone who has acquired their ownership rights or by an employer if the breeder works for an organisation. Only new or recently exploited varieties can be registered and you must prove that it is distinct, uniform and stable.

This means that the variety must be different from all other commonly-known varieties and these claims must be verified with a comparative test. The new variety must also have uniformity and stability by staying true to its description after repeated propagation.

Fast fact: Plant Breeder’s Rights

- Registration lasts for up to 25 years for trees and vines and 20 years for other species
- The application fee is $300, examination costs are $1400 while the annual renewal fee is $300 per year
- Australia has been a member of the International Union for the Protection of New Varieties of Plants (UPOV) Convention since 1989.
Non Registrable Intellectual Property
Both registered and unregistered IP can be owned, sold and transferred, leased or given away, just like physical property. There are two common forms of non-registrable IP: copyright and confidential information/trade secrets.

Copyright
Copyright comes into existence as soon as work is recorded in some way. This may be by writing, keyboard entry and storage on a computer’s hard disk, or making an audio or video recording. In most countries, copyright is an unregistered right. This means you don’t need to file an application for copyright protection.

Copyright exists in the work itself, and gives the artist or creator the exclusive right to copy, publish and distribute works, and to enjoy certain other rights, depending on the type of copyright work concerned.

Tip: Use a copyright notice
Although copyright protection in Australia is not dependent upon formal notice, it is best practice and advisable for copyright owners to place a copyright notice in a prominent place on their work. This warns others that you take your IP seriously and there are conditions for the use for your materials.

The copyright notice is the symbol © followed by the name of the copyright owner and the year the work was created or first published. For example, this publication is protected by copyright as shown in the inside front cover.

Confidential Information or Trade Secret
Confidential information is information that you choose not to make publicly available, because it is valuable to your business and gives you a competitive edge. This could include manufacturing know how and trade secrets, databases of customers, databases of suppliers or the functionality of computer programs. In short, confidential information is what you wouldn’t want your competitors to know. Trade Secrets are particularly important IP assets. The main benefit of trade secrecy is that it can exist for as long as the information remains confidential. From a technology perspective, confidential information works best when the technology is very difficult to reverse engineer.

Tip: Treat confidential material as ‘confidential material’
Confidential information is only entitled to protection when it is treated by the organisation as just that. This can be claimed by keeping the material in a file marked ‘confidential’, or by granting access to certain staff members only. The classic Trade Secret is the formula for Coca-Cola.

2. Beware the publicity trap – protect before you publicise
Each type of IP has a range of criteria that must be met for a right to be granted. For example, to obtain patent protection, the item you want protection for has to have an inventive step, i.e. no one else in the world, now or in history has invented what you have. However, most registered IP rights also have eligibility criteria that state the IP must be ‘new’ and has never been disclosed or revealed in public.

If you have publicly disclosed your design, new invention or plant variety before applying for registration, you may have lost your ability to protect it.

This means that you cannot have disclosed or shown the invention in public prior to seeking registration. The ‘public’ does not need to be a significant number of people – even one could be too many. You should be aware of this before you include a new design or invention in your latest catalogue or exhibition stand, as such a move can severely limit your ability to secure a registered IP right.

This also applies to the internet - many organisations fall into the trap of promoting their new design and invention online before securing registration.
Examples

Electrical manufacturer, Kambrook, potentially lost millions of dollars because it failed to protect its electrical power board invention. When it was released in 1972, the product was hugely successful and was the basis for Kambrook’s growth into a major producer of electrical appliances. As the product was never patented, Kambrook ended up sharing the market with many other manufacturers and losing its opportunity for millions in royalties.

Today Kambrook has a number of registered rights for a range of consumer goods demonstrating its awareness of the importance of IP.

In another instance, a Sydney furniture company took a rival Melbourne company to court for infringement on one of its chair designs. But the Sydney based company ended up having its design registration revoked after it was revealed its chair had been exhibited at a trade fair before the design was registered.

If you don’t intend to register your design, public disclosure can be a strategic move to prevent others from obtaining registration of a similar design. While this doesn’t give you any rights to the design, it prevents others from obtaining registration.

IP Australia has a formal publication option available for those wanting to pursue this strategy.

3. Trade secrets and confidentiality agreements

Trade secrets are most effective in cases where the product or process is difficult to reverse engineer – that is, difficult to recreate. One disadvantage is that trade secrets do not provide any legal security against an independent competitor inventing an identical object.

By choosing to keep certain information about your business a secret, you can keep your organisation’s IP options open (as discussed previously, designs and patents can only be registered if they are new and have not been made public).

Example

The best known example of a trade secret is that of the Coca-Cola formula. Coca-Cola has used trade secrets to keep the formula of its popular soft drink from becoming public over a period of decades. The company never applied for a patent, so it was never required to disclose the formula.

In Australia, the protection of trade secrets and confidential information is prescribed by common law. Using this method of protection therefore needs to be managed by the organisation wishing to keep something a secret.

Protection is usually maintained by not disclosing the secret information at all, or by disclosing it to only a very limited number of people. When disclosure is unavoidable, confidentiality agreements should be used between the IP owner and those to whom the information will be disclosed. The purpose of these agreements is to contractually agree to the terms of the use and disclosure of the confidential information and provide written evidence of such an agreement.

Confidentially agreements can be made with anyone you wish to impose an obligation of confidence on in relation to the use and disclosure of your confidential information, including employees, business partners, business associates or research academics.

Tip: Proactive strategies for protecting your confidential information

- Education – ensure that everyone who deals with confidential information within your organisation is aware of its nature and value
- Security procedures – mark confidential material ‘confidential’ or ‘commercial-in-confidence’ and store it securely. Protect electronic information with passwords. Keep desks clear of confidential information
- Coordination with other forms of protection – take care that other forms of protection are in place where appropriate to secure the benefit of your advantage for as long as possible.

When drafting confidentiality clauses and undertakings, consider the following:

If you wish to impose an obligation of confidence on an employee, be sure it does not amount to an unreasonable restraint on that person’s right to earn a living. The courts will not enforce an unreasonable restraint. Before disclosing confidential information to a joint venture partner or financier ask that person to sign a confidentiality agreement.

Below is a checklist of key aspects to include in confidentiality agreements:

- Identify each person who has access to the information
- Be very clear about what information is to be treated as confidential
• Identify the use to which the information can be put (e.g. evaluating a proposal)
• Specify the number of copies that may be made of the confidential information
• Specify when to return originals, and when to return or destroy any copies
• Set a time limit for considering the information, or a date for its return.

If agreement is reached on a proposal, any confidentiality agreement is usually superseded by that agreement. As the relationship moves forward, ensure that the level of confidentiality required is reconsidered and, if necessary, establish revised confidentiality obligations.

4. Review your IP

A regular review of IP is part of good management practice but is commonly overlooked by many organisations. Whilst you may regularly undertake a stock take of your tangible assets to help you make commercial decisions, the same process should apply when accounting for your intangible (IP) assets. Good practice would see a review of IP included in the half yearly management sign-off. In the same way that management confirm the safe keeping of physical fixed assets, they also confirm the ongoing registration, ownership and control of IP assets.

The sheer diversity of IP, and circumstances surrounding its creation, often makes it impossible for an organisation to be fully aware of all the IP they own, but a systematic review of the IP owned, used or acquired by an organisation can help. The principle goal of an IP review is to identify all the IP the organisation has. Additionally, it helps the organisation to establish:
• Whether or not its IP rights require registration
• Who owns the rights and, if these aren’t owned by the organisation, identify any conditions that apply to use
• Whether its IP is being used effectively
• Whether its rights are being challenged or threatened by others
• Whether it has an effective IP management and maintenance plan in place
• A record of its IP creation and ownership.

Many who conduct an IP review for the first time are surprised by not only how many IP assets their organisation owns but also how valuable these are to their organisation. For example, they might discover a new patentable product which has arisen from the research and development undertaken by employees or new IP acquired as part of a recent venture or as a result of a non-core business activity.

There are two types of IP review:
• A preliminary IP review, which gives an overview of existing IP, and the value it contributes to the enterprise
• A comprehensive IP review, which is usually conducted when there is a specific purpose to address, such as due diligence, or to enforce or defend legal action. In cases such as these, a qualified IP practitioner (e.g. a patent attorney, IP lawyer or recognised accountant) should be engaged to assist.

If the purpose of an IP review program is to identify what IP an organisation owns, its current status and its commercial potential, the IP review will be extensive. It might include:
• Questionnaires for employees and present and former contractors to acquire information on, for example, inventions, know-how and methodologies acquired and computer software developed
• Interviews with employees to uncover information about discoveries and creations
• Review of contracts to which the organisation is, or has been, party. This will determine whether or not normal business activities could have given rise to the creation of IP, and if so, that there are contracts in place stating who owns that IP
• Contracts to be reviewed which should include agreements with employees and independent contractors, joint venture, licence and research and development agreements
• Documents of Title as evidence of current registrations
• Database searches, including commercial patent databases and searches of public registers such as IP Australia’s database of patents, trade marks and designs. Court registries could be searched to identify any infringement actions against an organisation
• Publication reviews of trade journals and government gazettes (particularly in relation to applications for patents, trade marks and designs), as well as competitors’ brochures and other marketing material, information memoranda and prospectuses to be kept informed of possible developments, infringements and compliance with legal requirements.
Introducing ‘Intellectual Property Explorer’

The governments of Australia, Hong Kong and Singapore have contributed to an online tool to help organisations realise and profit from their IP assets. Intellectual Property Explorer is a free, fast and easy online business tool to help identify and protect your IP assets by conducting a basic IP review. The tool sets out four basic steps:

1. Investigating the items of value in your organisation
2. Identifying the relevant IP rights that apply
3. Analysing elements of IP strategy
4. Improving business practices by producing a short diagnostic report.

For more information, visit www.intellectualpropertyexplorer.com

5. Developing an IP strategy

The way you treat your organisation's IP will depend upon its commercial and strategic value to your operation. By asking the right questions, you can take steps to evaluate your organisation’s position in relation to IP risk and determine risk management strategies that may avoid complications with third parties.

Obtaining IP is hardly ever a goal in itself; therefore, an IP strategy needs to be developed with an understanding of how IP fits into your organisation’s overall commercial objectives. To do this you need to:

- Establish your organisation’s goals – what are you trying to achieve and what is the nature of the competitive environment you operate in
- Evaluate your IP position against your organisation’s goals and align your IP to them – what IP is central to your core business
- Establish whether there any forms of IP that no longer fit in within your strategy
- Develop your IP strategy; there is an array of strategies that can be employed to protect and exploit IP assets ranging from contractual agreements with partners to marking out the geographical boundaries you wish to operate within.

By consulting an IP advisor or expert like an attorney or Chartered Accountant, you can develop an IP strategy that is cost effective and appropriate for your circumstances. This one action could add significant value to your organisation and will then become the basis upon which future decisions are made about upgrading, selling or retiring your organisation’s IP assets.

Case study

Company = Unistraw  Product = Sippah Straws

While IP protection costs money, Director Martin Chimes says it is crucial for businesses of all sizes. ‘There’s no way around it. You’ve got to put together an IP strategy which works for your business and marketplace, like we’ve done.’

In just over two years since Martin Chimes and Peter Baron launched Australian company Unistraw and their Sippah Straws, they have signed distribution contracts with 35 licensing partners in 100 countries. Such dramatic growth is reflected in a host of awards and honours, including the nomination of Sippah as one of the 50 great ideas for the 21st century, by UK newspaper The Independent.

Sippah straws contain beads impregnated with flavours such as chocolate, cookies ‘n’ cream and banana, and are now sold in major fast food restaurants and in major supermarkets. The straws also have a serious side – prototypes are being developed to administer vitamins, probiotics, dietary supplements, antibodies and other medicines.

Yet Sippah is no overnight success. It is 10 years since inventor, Peter Baron, first made straws with internal filters and flavour beads for his milk-drinking grandchildren, without adding excess sugar to their diet. The idea now has the potential to transform lives. ‘Parents want their children to drink more water and more milk. So we added flavour to that, and now we’re looking at how to fortify that. We’ve got straws including micronutrients that will be able to be used by kids infected with AIDS to lower their suffering.’

Since launching as a food technology company in January 2005, Unistraw has gone to extraordinary lengths to protect its IP, creating its own licensing model and pursuing patents. ‘Our key thing to do was develop low-cost manufacturing,’ he says.

‘We knew we had to set up in China or somewhere else that would give us that base. We realised we had to develop a global brand and that to get rapid expansion across the globe, we would have to do international licensing.’
‘We’ve had to develop and protect our intellectual property – that was a key focus for us. In our strategy towards protecting intellectual property, number one was that we should protect ourselves as much as we are able to in the form of patents, registered design rights, trade secrets, copyrights, and trade mark applications.’ Unistraw has implemented a sophisticated protection measure: it segments the manufacturing process to ensure that its products and systems can’t be copied at the factory.

Despite such impressive security layers, there have still been problems. When the product was first shown in Germany in 2005 at Anuga, the world’s largest food and beverage trade show, Unistraw learned that a food giant competitor was about to launch a similar straw in supermarkets. That set off alarm bells.

Baron had been in preliminary discussions with the company back in 2003 to develop the product. While those talks eventually stalled, the competitor company executives did get a chance to examine Unistraw’s manufacturing process and try out samples in Sydney. Unistraw has since taken the company to the High Court in London. The case has been settled out of court and the terms are confidential. It is understood the competitor only sells and markets its straws in the UK.

Another company that launched a flavoured straw in China through the Internet was shut down in 24 hours.

‘We work straight away on the basis that if somebody’s going to copy us, we’ve got to make it a minefield that’s as difficult as possible for them to get away with it, and we will be vigilant on it and pursue people endlessly. If you step back off it, then you’ll get copied. I think we’re developing as a company with a reputation for being a fierce protector of our intellectual property.’

6. IP Governance and the Board

When a significant proportion of your organisation’s value is contained in your IP and other intangible assets, IP should be given appropriate consideration at Board level. Board members will bring an appropriate balance of skills, experience and independence, depending on the nature and extent of your operations, from accounting to marketing, but should also include IP management.

Is IP currently given consideration at the Board level? To determine this, you should consider the following questions:

- Are there practices in place which identify, assess, monitor and manage both strategic and operational IP risk?
- Does the Board regularly review and approve the risk management and oversight policies?
- Has the Board established a risk management committee?
- Is IP asset control and protection considered by the risk management committee? The risk management group should consider trends, expiries and emerging threats to IP assets
- How can the Board encourage and reward innovation and maximise the returns on the organisation’s IP?

If the Board asks management ‘who owns this asset?’ the organisation should be able to answer. Every organisation has an element of uncertainty and carries risks that can be managed through effective planning, foresight and internal controls. By assigning someone within the organisation the role of overseeing all policies relating to IP acquisition, protection and control and by bringing this important topic to the attention of the Board – you can improve the operation of your organisation.
Commercial issues

The IP system offers protection, but it can also offer market intelligence. It can be used to determine if the idea your organisation is working on already exists, can help boost your marketing efforts, protect your interests and avoid legal complications down the track.

By learning how to use the IP system you can avoid wasting time, effort and money and instead focus on exploiting your IP more effectively.

7. Business opportunities: keeping competitors close

Using IP databases and records as a source of market intelligence provides an organisation with a list of potential partners, competitors and licensees. They can also be used to inspire and help an innovator discover how someone else solved a similar problem.

A competitor will be just as eager to protect their rights as you are, especially if they have spent time and money securing formal IP protection. Spend time gathering market intelligence on your competitors – it can give incredible insights into their organisation’s future direction and current marketing or research and development effort. For example if you are a soap manufacturer and your trade marks database reveals a major manufacturer has just registered a range of new trade marks in the soap class, you can strategically prepare yourself for the new market entrant.

To conduct searches, you can start by visiting IP Australia’s website, [www.ipaustralia.gov.au](http://www.ipaustralia.gov.au), which contains patent, trade mark, design and plant breeder’s rights searching capabilities.

Various international IP databases are also accessible. Two of the largest international databases are:
- The European Patent Office: [www.european-patent-office.org](http://www.european-patent-office.org)

You can subscribe to journals, articles and newsletters relevant to the area or industry you are working in; and/or use internet search engines such as Google and Yahoo.

IP attorney firms and specialist searching firms also offer professional searching services.

8. Avoid the risk of infringing on others’ rights

Being forced to rebrand or pay costly damages can be the downfall of a business. You want to avoid the two different forms of IP infringement:
- Infringing the IP rights of other people and organisations
- Infringement of your rights by other people.

Infringement is costly so it is best to take steps early to avoid it.

There are a number of basic steps you can take to avoid infringing the IP rights of others.

Search and be sure

As part of good practice you should conduct a search of existing IP databases on the IP Australia website before going public with a new logo or product that might inadvertently infringe on another person’s IP.

Identify your IP

Remember, your IP includes registered rights as well as business critical information, such as customer lists and specialist knowledge. Identify and review your organisation’s IP.

Maintain your rights

If you own registered IP, keep a track of important dates such as renewals and ensure your details are kept up to date on all registers, both in Australia and in other countries.
Get permission for source material
Avoid the use of any material that is sourced from another person without obtaining specific permission. Permission is often referred to as a ‘clearance’. You should be vigilant in always asking about the source of any material provided to you and the clearance, if any, of rights in that material.

It is a myth that you are allowed to copy up to 10% of a work. The myth may have derived from a 10% rule that applies to fair dealing, which allows for copying for the purposes of research or reporting the news. However, you can’t reproduce any percentage of someone’s work for commercial purposes without their permission.

Retain ownership records
Maintaining documents that substantiate your ownership or permission to use IP will help prove that any infringement was innocent rather than deliberate and can substantially reduce your liability.

If a court finds that an infringer did not know and had no reason to believe that there would be an infringement, the court cannot order the infringer to pay damages. Instead, the infringer is ordered to pay to the owner of the IP right, the value of any profits obtained from the infringement.

Stop infringement from happening to you
As the owner of IP rights, you have a range of options and actions you can take to prevent the infringement of your rights by others. This includes remaining vigilant in the market place and being prepared to act when an infringement occurs.

You can set out the methods to help you to detect infringements. Detection methods can range from periodic review of competitors’ products and advertising to campaigns specifically targeted at identifying infringements and infringers.

Determining whether there has been an infringement of IP rights and what legal action is appropriate can be a complex exercise. It is recommended that you talk to an IP professional before taking any infringement action or establishing an infringement strategy.

Send a message to your market
Branding is the emotional connection with your consumers and one of an organisation’s most valuable assets. As part of your organisation’s marketing strategy, send the right message to market about your IP. You may use the ® (Registered symbol) next to your trade mark once your trade mark is registered.

Before registration, it is permissible to append ™ to your trade mark to indicate to others you are using it as your trade mark although it is not yet registered, you are claiming ownership under common law.

Where your publications, packaging, products or designs contain original works, include a copyright indicator (i.e. © + owner’s name + year the original work was first created).

These labels will show customers that your organisation’s product is bona fide and authentic and will deter copycats. Not only can copycats erode your organisation’s hard-won market share, poor quality imitations could also quickly ruin your brand reputation.
9. How to market your IP

You wouldn’t direct marketing effort toward a brand unless you owned it, so protecting IP should be the starting point for building your brand. If you’re going to create a brand and obtain IP around your brand identity, the starting point is to come up with a name and protect it with a registered trade mark.

Developing a distinctive trade mark should be an integral part of your marketing strategy. The public will identify a certain quality and image with goods and services bearing your trade mark. It can become an important means of maintaining goodwill with your clients and improving your bottom line.

It’s best to generate a name that you think is going to work as the identity of your organisation or product/service line. Some brand experts suggest that a name needs to be short and easy to say and remember but, importantly, the name needs to be unique and able to be owned. There’s no point in having a brand name that you invest in but doesn’t work in the marketplace.

A good name emphasises the benefit that you’re delivering to your customers and that can be protected and defended. If you can put a tick next to all those boxes as you create the idea for your name, then you’ve come up with something powerful.

**Tip: Trade mark/branding**

Not all logos or names can be registered as a trade mark.

To increase chances of registration, a trade mark needs to be something other traders don’t need to use in the normal course of their trade (for example, shoe for shoe products would be hard to register). Invented words and names that don’t have a direct correlation to the product are more likely to be registrable – for example, ‘Apple’ for computers.

It is also very difficult to register a geographic name or a common surname as a trade mark.

You can protect your brand online with a domain name that matches your trade marked name. Domain names are an important part of your brand and organisation’s identity.

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10. Proof of ownership

- Was your organisation’s IP developed in the course of running the business, by employees and/or contractors or developed externally by another person or organisation?
- Was it something you learnt from publicly available resources or developed jointly with another person?

As a leader in your organisation, you should be in a position to prove beyond question the ownership of IP under these scenarios and avoid complications further down the track.

While patents, designs, trade marks and plant breeder’s rights have a public register of owners, title is not guaranteed by registering the IP right. An IP title does not have the same defendable qualities as does the title to land or other assets.

Ownership is based on being able to show that you are the ‘author’ or ‘creator’ of the IP. It is sometimes difficult to establish effective property rights where several people may be involved in creating new IP. One of the most common mistakes organisations make is not securing rights from a third party contractor. Unless specified by a legally binding agreement, it can be difficult to determine who is the ‘author’ or ‘creator’ of the IP.

Don’t risk it – sort out the ownership aspects well before your new venture hits the market. Once the money starts coming in, it’s often too late to get agreement over ownership conditions.

**Example**

You might pay someone to design a company logo or develop a software system. Unless specified, the logo or software will belong to the designer. Payment does not necessarily give rise to ownership rights. The firm engaging the designer should ensure it owns the logo, given it is likely to become their corporate identity. The best way to ensure ownership would be through warranties and covenants in the contract of service with the designer.

The good news for employers, however, is that any IP created by employees at work is held by the business by default.

Organisations should also ensure that the contract with marketing companies and designers that help you with the creation of your brand includes a clause that requires them to prove that the design work will not conflict with IP, in any medium, owned by another company.
Tip: Prove your ownership of IP

Keep a record of:

- What kind of right you have and in what form the right was created
- What, if any, material from a third party was used in the creation process, and whether permission for such use was obtained
- When it was created
- Who created it
- Evidence of ownership, such as an application for trade mark
- Contracts with all parties involved in the creation of the IP, which clearly identify who owns it
- Log books showing how the creation process was undertaken (particularly important for IP created by employees)
- Files of early drafts and prototypes of the actual deliverables which embody intellectual property.

11. Difference between business names, trade marks and domain names

One of the most common misconceptions amongst Australian businesses is the role of a business or company name. In essence, a business or company name provides no ownership rights. Only a trade mark provides legal rights that entitle the owner to use, licence and sell the name.

An Australian registered trade mark gives the owner a limited monopoly to the exclusive right to use that name in Australia to distinguish their products or services from others.

The requirements for registration of business, company and domain names are different to the registration of a name as a trademark. What may be registrable as one is not necessarily registrable as the other and obligations may vary from state to state.

As discussed earlier, a trade mark should not be descriptive. An example of a descriptive mark would be “Brisbane Mowing Service” for lawn mowing services in Brisbane. A trade mark needs to be capable of distinguishing the particular goods or services. In this case something like ‘QuickKlip’ may be a better choice. With good marketing, the name becomes associated with a particular product, service, quality and business.

Did you know?

The Institute restricts the use of the words ‘Chartered Accountants’ by members in practice. In particular, the words ‘Chartered’ or ‘Chartered Accountant(s)’ should not form part of a registered business name or company name.

This is because the right to use a registered name is able to be transferred to persons other than Institute members. Where Institute regulations are satisfied, the words may be used as a description of the practice, in conjunction with the registered name.

Similarly, it would not be appropriate to incorporate the words into a registered trade mark, which is likewise capable of transfer to non-members. In the Institute’s view, the words ‘Chartered Accountants’ are descriptive.

Trade marks can also be owned and infringed in cyberspace. Like business and company names, there are no proprietary rights in a domain name. Having a registered trade mark that is the same as your domain name may assist in your claim to a domain name and may prevent cyber-squatting.

Cyber-squatting involves individuals or firms registering domain names with the sole intention of selling them at an inflated price to a trade mark holder.

The growing trend of trade mark misuse and cybersquatting has increased the demand for the World Intellectual Property Organization (WIPO) dispute resolution services with 2,107 complaints being lodged in 2009.

Approximately a quarter of the 2,107 cases filed in 2009 were settled prior to a panel decision. Of the remainder, 87% of panel decisions ordered the transfer of the domain names to the trade mark owner.

To find out more about the WIPO Arbitration and Mediation Centre visit http://arbiter.wipo.int/domains/filing/udrp/complaint.html
### Table 2: Difference between business names, trade marks and domain names

<table>
<thead>
<tr>
<th>Function</th>
<th>What registration provides</th>
<th>Where to register</th>
<th>Compulsory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade mark</strong></td>
<td>A registered trade mark gives you the legal right to use, license or sell it within Australia for the goods and services for which it is registered.</td>
<td>IP Australia grants trade mark rights. See <a href="http://www.ipaustralia.gov.au">www.ipaustralia.gov.au</a> or call 1300 651 010</td>
<td>No – but is recommended as registration provides you with the best protection for your brand.</td>
</tr>
<tr>
<td><strong>Company name</strong></td>
<td>It is compulsory to register your company with the Australian Securities Investments Commission (ASIC) in order to be recognised as an Australian company under the Corporations Act 2001. No proprietary rights in the name are gained through registration. However, ownership of the name does offer considerable protection in preventing others from using that name.</td>
<td>Company names are registered with ASIC. Visit <a href="http://www.asic.gov.au">www.asic.gov.au</a></td>
<td>Yes – new companies must be registered.</td>
</tr>
<tr>
<td><strong>Business name</strong></td>
<td>It is compulsory to register your business name in each state and territory that you trade in if you are using a name other than your personal name or company name. Business name registration records the contact names and details of the owners of your business. Business name registers are state based so there could be businesses with the same name in different states. No proprietary rights over the name are gained through registration.</td>
<td>Business names are registered in each state. See your local telephone directory for contact details or visit <a href="http://www.business.gov.au">www.business.gov.au</a></td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Domain name</strong></td>
<td>You will need to register a domain name if you want to use an address on the internet. Domain name registration gives you exclusive use of an internet address for an agreed period of time. Variations include .com, .com.au, .biz.au and .net.au. No proprietary rights in the name are gained through registration.</td>
<td>Domain names are registered through various resellers or registers who are given authority by .au Domain Administration Ltd (auDA). Visit <a href="http://www.auda.org.au">www.auda.org.au</a></td>
<td>Yes – if you want to use an address on the internet.</td>
</tr>
</tbody>
</table>
Tip: Business name registration
The correct sequencing of business identifier registration is important. One suggested way would be:
1. Conduct search of IP Australia’s trademark database, and see if your trademark is available
2. Conduct search of business and company names on ASIC’s database, and see if your name is available
3. Conduct domain name search with one of the service providers, to see if domain name is available
4. File a trade mark through IP Australia’s TM Headstart service, which provides information within five days on whether your trade mark is able to be registered
5. If the trade mark can proceed, apply to register the business, company name and/or domain name as required.

12. IP and exporting
If you want to trade overseas or sell to overseas customers via the internet, you should consider seeking IP protection in the countries you plan to trade in. One of the most important things an organisation can do prior to exporting to another country is to think about protecting your IP.

A recent survey by IP Australia found that 41% of exporters had not even considered protecting their IP before entering a new market. Remember, registering an IP right in Australia does not automatically give you international protection.

There are international agreements in place to make it easier for you to secure your rights in overseas markets. Australia is a party to multilateral agreements and arrangements that give you the opportunity to secure exclusive rights in overseas markets. International registration of each IP right involves different treaties and application processes that vary in costs and time limits.

The first step is to develop an international IP strategy that suits your specific needs, goals, resources and identified markets. Developing effective IP protection strategies will depend on your particular business. Be mindful with patents and designs; you cannot ‘see how it goes’ in the Australian market then apply for patent and design rights in other countries. Once you file in Australia, there is a narrow window of opportunity when all applications for overseas protection need to be filed.

An effective strategy might involve a range of IP options: trade secrets, confidentiality agreements, trade marks, patents, designs and copyright. For example you could take out a patent on a new invention and register a trade mark for the same product.

Whatever your strategy, once you have secured your IP rights, consider developing an infringement strategy to protect against the unauthorised use of your IP. It is important to protect your IP by responding swiftly and resolutely to infringements of your rights.

Understanding IP issues before you start doing business overseas and being on the ‘front foot’ with the challenges you may face will help you overcome common pitfalls such as potential IP violations or local customs and laws relating to imports and trade. The Business Briefing – 20 issues for businesses expanding internationally, published by the Institute and Ernst & Young includes some guidance on this issue. Additionally, organisations should consider engaging experts to assist them with specialist knowledge of IP as well as the jurisdiction being considered.

13. Start-ups, venture capital, angel investors, private equity, transfers, mergers and acquisitions
Raising investment capital in Australia can prove to be difficult and time consuming. Australian retail banks and other funding institutions are not always comfortable with investing in or lending to organisations where the organisation’s prime focus is the commercialisation of IP. Venture capital, angel investors and private equity are ways of financing early-stage, high potential start-up organisations.

To maximise your ability to attract venture capital investment, you will need to understand what the venture capitalist will require in return for providing you with funds to commercialise your IP product.

It is essential to plan your business structure carefully before you seek venture capital. You should also spend time researching the predictable requirements of professional providers of venture capital and how they want to see information presented. It is likely that you will require professional assistance to prepare your plans and presentation.

The likely range of advisers to help you prepare your organisation’s structure for venture capital input may include a patent attorney, a lawyer, a chartered
accountant and/or a management consultant. You will need good project management skills to effectively combine their respective and complementary expertise.

Venture capital is high risk/high return investment, which is particularly suited to a dynamic IP-based organisation. Venture capital is allocated to early start-ups which are unable and/or unwilling to offer conventional debt based security, such as personal guarantees and collateral security over real estate. Studies have shown that inadequate protection of IP is an important reason for capital providers declining to invest. It is important that you have a business plan which includes a strong program for protecting your IP.

The plan should show, for example:

- Prudent, focused strategies for the next five years
- An experienced, enthusiastic management team with specific objectives
- A good marketing plan
- Reliable market research indicating strong market opportunity and methods of realising business opportunities
- Focus on the domestic market with potential for international expansion
- An IP portfolio able to protect those aspects of the business which determine the venture’s success and establish competitive advantage
- Viability and revenue projections, pricing and gross-margin strategies
- Potential to grow revenue by a significant percentage each year – for the next three to five years
- The potential to generate a reasonable pre-tax internal return.

Given that only 5% of technology driven start-ups are still trading after three years, a structure which attempts to protect your organisation’s IP assets is viewed positively by investors.

Mergers and acquisitions
Where a transfer, merger or acquisition is occurring and the value of net tangible assets is significantly less than the purchase price, it may indicate a sizeable IP portfolio is involved. It is important to conduct effective IP due diligence to reveal the quantitative and qualitative boundaries of the IP portfolio. Check that the IP being offered is actually being used or is needed to conduct the business and, more importantly, that third party IP rights are not being infringed.

The structuring of an acquisition is frequently governed by tax considerations. Your IP advisor must be alert to the consequences arising from any particular structure jeopardising IP rights. For example, transferring all the IP to a separate IP holding company while transferring all tangible assets to a separate operating company, will cause problems if common law trade marks are involved. Common law trade marks cannot be validly assigned separately from the goodwill attached to the business assets purchased.

Frequently, IP rights arise in various jurisdictions, e.g. foreign registered trade marks, granted patents, etc. As the laws in other jurisdictions sometimes differ significantly from Australian law, engaging a good quality IP advisor is important to ensure a smooth transition in ownership of all IP rights.

Where an entity or operation is acquired, judgment is required to determine what identifiable intangible assets exist and whether they can be measured with sufficient reliability (refer to issues 15 and 16). For tax depreciation benefits to flow to an acquirer, it is necessary to identify the values relevant to specific patents, registered designs and copyrights, as well as the licences for those rights.
14. Commercialisation – licensing, assignment and franchising

Organisations have several options that can be used to turn ideas into profit (commercialisation). The IP considerations you need to factor into each option, including international considerations, should be well understood in order to achieve commercial success.

Licensing

Licensing your IP to another party can be an effective way to exploit IP, particularly if you don’t have the resources or experience to develop and market your product or service. Essentially, a licence is a contract where the IP owner gives permission to a licensee to commercialise that IP. A licence may extend to all aspects of commercialisation, from developing it further, to manufacturing products or marketing, promoting and selling those products. As with all other aspects of commercialising your IP, licensing needs to fit in with your business strategy and practices.

An exclusive licence is the most commonly used mechanism to commercialise IP with a partner but there are many other types of licenses including know-how, trade mark and non-exclusive. Licensing arrangements are a fairly common method of exploiting trade marks but any type of IP can be licensed. They give the licensee the right to use (but not own) the IP. The owner of the rights will usually receive payments in the form of royalties in return for its use.

Assignment

Unlike licensing, where the creator or owner of the IP retains ownership and some control over the use of the IP, an assignment is an outright sale. When IP owners transfer their ownership, they can’t impose any performance obligations on the new owner.

Even with the complete loss of IP ownership, assignment is worth considering as an alternative commercialisation strategy. For example, an owner may prefer to receive a substantial up-front lump sum payment for the assignment, instead of smaller royalty payments throughout the commercialisation period, as would happen with a license. Capitalising on the financial rewards up-front may be the preferred option as it often has a smaller amount of risk compared to licensing.

Franchising

When the owner of a successful business wants to expand without borrowing capital to develop, they can license IP to franchisees. This generally includes use of trade marks, logos, promotional material, the business system, various processes and shop fit-outs.

Franchising is a method or system for distributing goods and services. The franchisor owns the IP rights over the business system, service method or special product. The franchisee pays a fee or regular royalties for the right to trade under the brand name. The franchising code of conduct places certain restrictions on licensing agreements.

The franchisee can benefit from coordinated marketing efforts and a pre-existing developed business system.
Financial aspects

As with elements of physical property, IP is an asset. Accurate recording of these assets may make the organisation more attractive to potential purchasers, partners and investors.

15. On the balance sheet

The Australian Accounting Standards Board’s Standard AASB 138 Intangible Assets prescribes the identification, recognition, measurement and disclosure requirements for intangible assets.

An intangible asset is defined as an ‘identifiable non-monetary asset without physical substance’. Expenditures on the acquisition, development and enhancement of intangible resources such as new systems, processes, IP and market knowledge cannot be recognised as intangible assets unless an asset is separately identifiable and the organisation has control over the future economic benefits to be generated by the asset.

The Standard does not permit the recognition of internally generated goodwill such as brands, mastheads, publishing titles, customer lists and similar items.

To meet the definition of an intangible asset, an asset must be identifiable to distinguish it from goodwill. To be identifiable, the asset must be separable or arise from contractual or other legal rights. Separable means that the asset is capable of being separated from the organisation and is able to be sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability.

An intangible asset is recognised only if it is probable that the future economic benefits attributable to the asset will flow to the organisation and its cost can be measured reliably.

Intangible assets with a finite useful life are amortised over the useful life of the asset. The residual value of an intangible asset with a finite useful life is assumed to be zero unless there is an active market for the asset or there is a commitment by a third party to purchase the asset. An indefinite useful life means there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Intangible assets with an indefinite useful life are not amortised, rather, they are tested annually to ensure they do not exceed recoverable amounts.

Mergers and acquisitions

AASB 3 Business Combinations requires that an acquirer must recognise an intangible asset acquired in a business combination (acquisition, merger, etc.) if its fair value can be measured reliably. Examples of items that would normally be expected to meet the definition of an ‘intangible’ asset in a business combination are:

- Trade marks, trade names, service marks, collective and certification marks
- Internet domain names
- Get-up: unique colour, shape or package design
- Newspaper mastheads
- Customer lists
- Customer contracts and related customer relationships
- Books, magazines, newspapers and other literary works
- Musical works
- Pictures, photographs and audio-visual material
- Patented technology
- Computer software and databases
- Trade secrets such as secret formulae, processes or recipes
- Licensing and royalty agreements
- Franchise agreements
- Operating and broadcasting rights
- ‘Use’ rights such as drilling, water, air, mineral, timber-cutting and route authorities
- Registered designs
- Plant Breeder’s Rights.
16. IP Valuation

IP is an asset that you should not forget to value. A working knowledge of the different methodologies of valuing IP and how IP assets can impact the net worth of a business is essential. It is not a quick or easy task and there are no hard and fast rules about how to value your IP assets.

If you invest the time and expense to identify and value your IP, you will benefit by:

- Determining a better idea of the overall value of your business
- Providing a tool to measure and manage your assets
- Providing security and backing for lenders
- Providing taxation benefits (taxation deductions)
- Reducing the proportion of an organisation’s net worth attributed to goodwill – important when selling a business.

To recognise, value and record your IP you must be able to identify your IP as a separate, stand-alone asset and recognise it as enduring in nature.

As part of an acquisition, intangible assets are identified and a fair value is subscribed to these. Any remaining excess of consideration over identifiable assets and liabilities will result in goodwill. For instance, if IP can be identified and reliably measured, it will then be amortised based on the remaining useful life assessed at the time of acquisition. This life will often be assessed as a fixed term, rather than indefinite. In contrast, unidentifiable assets or those not capable of reliable measurement, like goodwill, are not amortised and will be annually tested to ensure they are not carried above the recoverable amount. Depending on this treatment, this may have an immediate effect on both the profit and loss and the balance sheet.

The lists below contain examples of some identifiable and unidentifiable intangibles that may be found within a typical business.

<table>
<thead>
<tr>
<th>Identifiable Intangible Assets</th>
<th>Unidentifiable Intangible Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents, trade marks and brand names</td>
<td>Quality of the management team</td>
</tr>
<tr>
<td>Copyrights and designs</td>
<td>Know-how</td>
</tr>
<tr>
<td>Franchises and licences</td>
<td>Marketing expertise/marketing profile</td>
</tr>
<tr>
<td>Newspaper mastheads/publishing rights</td>
<td>Management expertise</td>
</tr>
<tr>
<td>Government quotas</td>
<td>Distribution networks</td>
</tr>
<tr>
<td>Covenants not to compete</td>
<td>Economies of scale</td>
</tr>
<tr>
<td>Secret processes and formulas</td>
<td>Technical skills</td>
</tr>
<tr>
<td>Information databases</td>
<td>Program rights</td>
</tr>
<tr>
<td>Plant Breeder’s Rights</td>
<td></td>
</tr>
</tbody>
</table>

The IP valuation method you choose depends on the type of IP you have and the reason for valuing it. IP assets cannot always be valued purely as a function of cash generation, or replacement cost, as some IP assets provide value through cost savings or competitive advantages which are not assessable through a traditional discounted cash flow approach.

There are three commonly used IP valuation tools:

**The cost method**
The cost method applies a value to an IP asset by estimating the cost of replacing or reproducing the asset. The cost method may include research and development (R&D) as well as expenses which were incurred whilst creating the IP asset, such as patent attorney and patent application costs.

The cost method is useful for IP assets that do not generate an explicit income, such as some patents, which may be used defensively to prevent competitors from operating in a given field.

**The income method**
The income method is beneficial when valuing an IP asset that actively generates income. This method may be used with regard to the sale of patented articles, or alternatively for income generated through patent licence royalties. The income method estimates future revenue by considering factors such as market size, competition, inflation, changing technology and product life.

**The market method**
The market method determines the likely market value of an IP asset by comparing it to sales of comparable IP assets. Whilst the market method is theoretically the most accurate, the information required to make such comparisons is often not publicly available on account of the confidentiality surrounding license agreements.
In addition, in many technology fields, comparable products are not available and hence, the requisite data is non-existent.

There are numerous strategic advantages associated with accurately valuing IP. However, there is no single method of valuing which works best in all scenarios.

17. Tax – Stamp duty and capital gains tax

**Stamp duty**

Each state and territory maintains its own office of state revenue that requires stamp duty (transfer duty) to be paid on the transfer of property including IP. An organisation’s location and who they trade with will govern whether they are liable for stamp duty on IP and if so, at what prevailing rate. IP on which stamp duty will usually be paid includes a business name, trade mark, patent, registered design or copyright.

When IP is transferred as part of a business or with goodwill, the revenue authorities generally apportion the value of the IP between states and territories on a sales or location of customer basis. Similarly, for organisations that trade between states, an apportionment of the IP value will need to be made.

**Capital Gains Tax (CGT)**

For an organisation, gains derived from the sale of its IP such as trade marks or patented technology would generally fall outside ordinary business activities. Such receipts are capital in nature and are only assessable if, and to the extent that, the CGT provisions or some other express statutory provision make them assessable.

Generally, outgoings of a capital nature cannot be deducted in the income year in which they occur, unless they relate to items outlined in designs, patents and copyright. These amounts must be carried forward, and tax benefits can only be claimed when the capital asset is disposed of and assessed to determine whether the asset realises a loss or gain.

Obtaining an annual allowable deduction for IP capital costs relies on specific provisions in income tax legislation. Depending on the nature of the expenditure, the legislation includes provisions for either:

- An immediate tax deduction for expenditure incurred in registering or extending the term of protection for IP
- Amortisation over a specific period for expenditure incurred from the purchase or development of the IP.

The effective life of an intangible depreciating asset listed below is the period applicable to the asset under the table and cannot be recalculated:

<table>
<thead>
<tr>
<th>Type of IP</th>
<th>Effective Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard patent</td>
<td>20 years</td>
</tr>
<tr>
<td>Innovation patent</td>
<td>8 years</td>
</tr>
<tr>
<td>Registered design</td>
<td>15 years</td>
</tr>
<tr>
<td>Copyright</td>
<td>The shorter of (a) 25 years or (b) when the copyright ends</td>
</tr>
<tr>
<td>A licence (except a licence relating to copyright or in-house software)</td>
<td>The term of the licence</td>
</tr>
<tr>
<td>A licence relating to copyright</td>
<td>The shorter of (a) 25 years or (b) when the copyright ends</td>
</tr>
<tr>
<td>In-house software</td>
<td>4 years</td>
</tr>
<tr>
<td>Plant Breeder’s Rights</td>
<td>In tree and vine varieties, PBR continues for 25 years from the data of granting, and in all other varieties, for 20 years</td>
</tr>
</tbody>
</table>
18. Tax – royalties and licensed IP rights

A key commercialisation strategy used by organisations is to licence their IP to a partner as discussed in issue 14. Licensing has the advantage of retaining ownership (control) of the IP as well as the ability to generate royalty payments.

Australian tax law generally requires the gross earnings or proceeds of an organisation to be included in assessable income. This would include royalties derived from licences or the right to use any patent, design, trade mark, copyright, know-how, formula or other similar property or right.

Whether a payment is a royalty payment or a payment for services depends on the nature and purpose of the arrangement. Payment for services are not royalties, unless they are ancillary to, or part and parcel of, enabling relevant technology, know-how, copyright, etc. to be transferred or used.

When commercialising IP, there are various ways you can determine royalties as well as the licence conditions. The royalty rate can be based on a number of variables but is most often based on revenues. The size of the royalty rate will differ depending on the characteristics of the asset considered and the industry in which that asset is employed. In the cost method, the value is the cost incurred in developing or purchasing the relevant technology or IP.

The most common payment a licensee makes to a licensor, the IP owner, is a royalty. Usually, royalties are expressed as a percentage of the product’s sale price. Royalties may also be based on sub-licence fees received by a licensee from a sub-licensee typically in relation to product sales.

Sometimes royalties may be ‘ramped up’, that is, as product sales reach certain milestone points, the royalty rate increases. There is no standard ‘sale price’ where a royalty upon sales is calculated. It does not matter whether the royalty is determined on gross sale price, net sale price or some other label. What is important is the definition behind that label and those respective terms. Other types of royalties include one off payments such as lump-sum licence fees, signing fees and milestone payments.

All licence agreements typically demand that:
- The licensee maintains good records and accounts relating to all transactions affecting the IP’s commercialisation
- The licensor is permitted to inspect those accounts and records at any time
- The licensor bears all costs of that inspection, unless the inspection demonstrates that there has been an under-payment of royalties or other required payments
- The licensee maintains the IP and all confidential information in confidence.

19. Grants and incentives

Everyone likes a helping hand. Many organisations are surprised to learn of the broad range of incentives available for development, acquisition, commercialisation and export of IP. Incentives include grants, loans, tax concessions, rebates, export assistance, market research, mentoring and skill development.

Grants and other funding programs are available from the federal, state and territory governments and in some cases from local councils. Generally there are few grants available for starting a business and those that are available are competitive or are only available in specific circumstances. However, there are grants and other assistance available for business activities such as expanding a business, research and development, innovation and exporting.

You may also find it useful to contact an advisory service for information on what support is available for your organisation.

To help you locate grants and assistance relevant to your business, the Australian Government has created a search tool called Grants & Assistance Finder. Using Grants & Assistance Finder, you can search for grants and assistance programs available within your state or territory, in addition to those provided by the Australian Government.

Emerging issues

Social media can no longer be ignored as it’s become part of our daily conversation. Many organisations and individuals have been using social media to their advantage and have become successful content producers. As a result, they are able to instantly communicate to their customers and networks.

The most popular social media websites include Facebook, YouTube, Twitter and LinkedIn. Although these are just a sample, sites such as these provide a whole new platform for interaction. Facebook alone, as of July 2010, had over half a billion users worldwide.

Along with the advantages of social media, there are also IP related risks. The law is still catching up with the changing face of social media and rights owners should take responsibility for policing their IP rights and not rely on site operators to do so.

20. Using social media

Social media can assist your business in reaching consumers on a grand scale, but there are IP considerations that need to be identified before taking the Web 2.0 leap.

2.0 IP Checklist:

If you are considering using Web 2.0 for your business, you need to ask yourself some important questions:

- Are your business names and trade marks registered? If not, you could be infringing on another trader’s IP and doing it in a very public way.
- Are you disclosing information about new designs or inventions? Doing so can rule out any possibility of registering a design or patent.
- Are you linking to or using the IP of others? Ideally you should seek permission or make sure you attribute the material to the rightful owner. It is important that rights owners not only police the use of their works but also that they clear any potential copyright protected content which they use.
- Will your content include original material such as photographs, drawings or creative writing? This material is subject to automatic copyright protection in Australia, but you need to make sure you indicate the owner of the rights clearly. One way is to use the © symbol followed by the creator’s name and the year of creation, for example – © John Smith 2011. Another way is to use watermarks to indicate they are your property and that copying them would be infringing on your rights.
- Do your employees have personal accounts that could be associated with your organisation? Comments made by employees can be viewed as indicative of an entire organisation’s viewpoint and may lead to serious legal issues, so make sure employees are aware of what is appropriate.
- Use confidentiality agreements to ensure your employees do not disclose any confidential information.

It all comes down to making sure you’ve secured your IP rights and are mindful of the rights of others when engaging in online business or promotion. Ensure you have read and understood the terms and conditions of any sites you use and be aware of their policies and complaints procedures.

You may not personally use social media networks but it is likely that your employees and customers will. It is recommended that organisations create an employee policy in relation to the use of social media. This could address your communication channels and how the use of your IP in the social media space will be policed.

Did you know?

The Institute of Chartered Accountants is very active in social media, and can be found on:

LinkedIn www.linkedin.com/groups?gid=134362
Twitter http://twitter.com/chartered_accts
Facebook www.facebook.com/charteredaccountants
YouTube www.youtube.com/CharteredAccts
# Top 20 issues on intellectual property checklist

## Management issues

<table>
<thead>
<tr>
<th>Issue</th>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What can be registered and what can’t?</td>
<td>Can you list the different types of intellectual property contained within your organisation and identify which of these can be protected by formal registration?</td>
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<td>2. Beware the publicity trap</td>
<td>Do your business processes ensure that you do not publicly disclose (publish, discuss, sell, display etc.) any new designs, products, concepts, or business ideas prior to seeking protection for these?</td>
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<td>3. Trade secrets and confidentiality agreements</td>
<td>Have you identified any trade secrets or confidential information contained within your organisation and taken steps to protect this information?</td>
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<td>4. Review your IP</td>
<td>Does your organisation review its IP assets regularly as part of its business planning and reporting processes?</td>
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<td>5. Developing an IP strategy</td>
<td>Do you know what IP is central to your core activities and have you included the management of these IP items in your business plan?</td>
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<td>6. IP Governance and the Board</td>
<td>Has someone within the organisation been assigned the role of overseeing all policies relating to IP acquisition, protection, control and bringing any IP issues that need to be resolved to the attention of the Board or Executive for reporting purposes?</td>
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## Commercial issues

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<thead>
<tr>
<th>Issue</th>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>7. Business opportunities: keeping competitors close</td>
<td>Do you regularly scan the marketplace including IP databases and keep up to date with your competitors’ activities and industry developments?</td>
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<tr>
<td>8. Avoid the risk of infringing on others’ rights</td>
<td>If you own registered IP, do you keep a track of important dates such as renewals and ensure your details are kept up to date on all registers, both in Australia and in other countries?</td>
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<td>9. How to market your IP</td>
<td>If you have a registered trade mark, do you use the ® (Registered symbol) on marketing materials in order to send a signal to the market including your competitors?</td>
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<td>10. Proof of ownership</td>
<td>Is there a written service contract (or other document) in place with each independent contractor used by your organisation which clearly records that any IP created by them under the contract is owned by you?</td>
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<td>11. Difference between business names, trade marks and domain names</td>
<td>Do you have both the regulatory and protection options in place?</td>
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<td>12. IP and exporting</td>
<td>Have you considered IP protection in other countries at the same time as seeking protection in Australia?</td>
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<tr>
<td>13. Start-ups, venture capital, angel investors, private equity, transfers, mergers and acquisitions</td>
<td>Do you have an understanding of what financiers will require in return for funding the commercialisation of your IP?</td>
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<tr>
<td>14. Commercialisation – licensing, assignment and franchising</td>
<td>If you are looking to grow your business, have you considered the benefits and limitations of franchising?</td>
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</table>
## Financial aspects

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/a</th>
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<tbody>
<tr>
<td>15. On the balance sheet</td>
<td>Have you placed a dollar value on your IP assets?</td>
<td>☐</td>
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<tr>
<td>16. IP Valuation</td>
<td>Are you familiar with different ways IP can be valued?</td>
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<tr>
<td>17. Tax – Stamp duty and Capital Gains Tax</td>
<td>Is there any IP owned that has been recently acquired or that generates revenue that may be subject to stamp duty and/or capital gains tax?</td>
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<td>☐</td>
</tr>
<tr>
<td>18. Tax – royalties and licensed IP rights</td>
<td>Do you understand how royalty payments will be calculated for IP?</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>19. Grants and incentives</td>
<td>Have you searched the Australian Government’s Grants and Assistance Finder to access programs that are available from the Australian, state and territory governments?</td>
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</table>

## Emerging issues

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/a</th>
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<tbody>
<tr>
<td>20. Using social media</td>
<td>Do you have a policy surrounding the use of 2.0 technologies for your staff?</td>
<td>☐</td>
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</tbody>
</table>
Useful contacts/links

<table>
<thead>
<tr>
<th>Organization</th>
<th>Website</th>
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<tbody>
<tr>
<td>au Domain Administration Ltd (auDA)</td>
<td><a href="http://www.auda.org.au">www.auda.org.au</a></td>
</tr>
<tr>
<td>Australian Consumer and Competition Commission</td>
<td><a href="http://www.accc.gov.au">www.accc.gov.au</a></td>
</tr>
<tr>
<td>Australian Securities and Investments Commission (ASIC)</td>
<td><a href="http://www.asic.gov.au">www.asic.gov.au</a></td>
</tr>
<tr>
<td>Australian Taxation Office</td>
<td><a href="http://www.ato.gov.au">www.ato.gov.au</a></td>
</tr>
<tr>
<td>The European Patent Office</td>
<td><a href="http://www.european-patent-office.org">www.european-patent-office.org</a></td>
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<tr>
<td>Facebook</td>
<td><a href="http://www.facebook.com/charteredaccountants">www.facebook.com/charteredaccountants</a></td>
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<tr>
<td>Franchise Council of Australia</td>
<td><a href="http://www.fca.com.au">www.fca.com.au</a></td>
</tr>
<tr>
<td>Internet Corporation for Assigned Names and Numbers (ICANN)</td>
<td><a href="http://www.icann.org">www.icann.org</a></td>
</tr>
<tr>
<td>Institute of Chartered Accountants in Australia</td>
<td><a href="http://www.charteredaccountants.com.au">www.charteredaccountants.com.au</a></td>
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<tr>
<td>Institute of Patent and Trade Mark Attorneys of Australia (IPTA)</td>
<td><a href="http://www.ipta.org.au">www.ipta.org.au</a></td>
</tr>
<tr>
<td>IP Australia</td>
<td><a href="http://www.ipaustralia.gov">www.ipaustralia.gov</a></td>
</tr>
<tr>
<td>Licensing Executive Society of Australian and New Zealand (LESANZ)</td>
<td><a href="http://www.lesanz.org.au">www.lesanz.org.au</a></td>
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<tr>
<td>LinkedIn</td>
<td><a href="http://www.linkedin.com/groups?gid=134362">www.linkedin.com/groups?gid=134362</a></td>
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<tr>
<td>Stamp Duty</td>
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<td>ACT Revenue Office</td>
<td><a href="http://www.revenue.act.gov.au">www.revenue.act.gov.au</a></td>
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<tr>
<td>Territory Revenue Office (NT)</td>
<td><a href="http://www.revenue.nt.gov.au">www.revenue.nt.gov.au</a></td>
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<tr>
<td>NSW Office of State Revenue</td>
<td><a href="http://www.osr.nsw.gov.au">www.osr.nsw.gov.au</a></td>
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<tr>
<td>Office of State Revenue (QLD)</td>
<td><a href="http://www.osr.qld.gov.au">www.osr.qld.gov.au</a></td>
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<tr>
<td>RevenueSA</td>
<td><a href="http://www.revenuesa.sa.gov.au">www.revenuesa.sa.gov.au</a></td>
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<tr>
<td>State Revenue Office (TAS)</td>
<td><a href="http://www.sro.tas.gov.au">www.sro.tas.gov.au</a></td>
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<tr>
<td>State Revenue Office Victoria</td>
<td><a href="http://www.sro.vic.gov.au">www.sro.vic.gov.au</a></td>
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<tr>
<td>State revenue (WA)</td>
<td><a href="http://www.dtf.wa.gov.au">www.dtf.wa.gov.au</a></td>
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<tr>
<td>Twitter</td>
<td><a href="http://twitter.com/chartered_accts">http://twitter.com/chartered_accts</a></td>
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<td>YouTube</td>
<td><a href="http://www.youtube.com/CharteredAccts">www.youtube.com/CharteredAccts</a></td>
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<tr>
<td>WIPO Arbitration and Mediation Centre</td>
<td><a href="http://arbiter.wipo.int/domains/filing/udrp/complaint.html">http://arbiter.wipo.int/domains/filing/udrp/complaint.html</a></td>
</tr>
<tr>
<td>World Intellectual Property Organization (WIPO)</td>
<td><a href="http://www.wipo.int">www.wipo.int</a></td>
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</tbody>
</table>
Contact details

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