



Guide to
Intellectual Property Audits
in the Isle of Man

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PREFACE

In today's knowledge economy, it has been estimated that over 80% of any company's value lies in its intangible assets, namely its Intellectual Property and its Intellectual Assets.

Intellectual Property is the name given to the output of innovation and creativity. Intellectual Property Rights is the name given to the legal rights granted to such.

“Intellectual Assets” is a wider term than Intellectual Property in that it extends to all knowledge that has market value. Examples of Intellectual Assets are staff expertise, market intelligence, strategic contracts and trade secrets. Knowing how to do something is not, in itself, an Intellectual Asset – that knowledge only becomes an asset if it has some form of commercial value or market demand. However, if you do not even know what Intellectual Property and Intellectual Assets are owned by your business, then how can you exploit them?

The principal forms of Intellectual Property Rights are:-

- patents;
- trade marks (both registered and unregistered);
- copyright;
- database rights;
- design rights (both registered and unregistered);
- confidential information/trade secrets.

This Guide is intended to provide an overview of Intellectual Property audits. We recognise that the Guide will not completely answer detailed questions which clients and their advisers may have and the Guide is designed as a starting point for a more detailed and comprehensive discussion of the issues.

Appleby
Douglas, Isle of Man
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1. Patents

A patent is a monopoly right that protects new products and processes, provided that such meets the requirements of the relevant legislation in that it must be novel, involve an inventive step and have industrial application. Patents are essential to sectors such as the pharmaceutical and manufacturing industries however, patents are not relevant just for big business as patents can be obtained for small, incremental improvements in technology and can generate significant value for any business.

The Isle of Man does not have its own patents register but the UK Patents Act 1977 extends to the Isle of Man. If granted, the patent gives a monopoly right to the owner of the relevant product or process for 20 years.

2. Trade Marks

The value and number of trade marks have grown dramatically in the post-war consumer boom. Why does the consumer buy Nike or Reebok trainers rather than a cheaper make – is it because the product is better or is it the power of the brand? Did you know that the names David Beckham and Tiger Woods are registered trade marks?

Trade marks can be both registered and unregistered. Unregistered rights arise through use and the action that is taken against a third party using an unregistered trade mark unlawfully is known as a “passing-off” action. Passing-off actions are however, notoriously difficult to prove and therefore the better protection comes in the form of registered trade marks. As with patents, the Isle of Man does not have its own registry for trade marks but registration is effected via the Trade Marks Registry, which is part of the UK Patent Office and the UK legislation in this area, namely the Trade Marks Act 1994, applies to the Isle of Man.

3. Copyright

The law of copyright underpins many industries, including the music industry, the software industry, the publishing industry and the broadcasting industry. Copyright is a right that arises automatically and generally protects original literary, artistic, dramatic works, films, sound recordings, broadcasts and typographical arrangements of printed works. Software is regarded as a literary work and therefore the traditional protection for software is copyright, although it is now possible to obtain patents for software in certain circumstances.

In the Isle of Man, copyright is protected by the Copyright Act 1991 (Act of Tynwald) and in the Isle of Man, the general length of protection for copyright is the life of the author plus 50 years (in the UK, the general rule is that copyright lasts for the life of the author plus 70 years).

4. Database Rights

Database rights were introduced by Part 2 of the Copyright (Amendment) Act 1999 (Act of Tynwald). This legislation reflects generally the database right that exists in the UK. The database right is separate to any copyright that may exist in or be included in any contents within the database. The database right only exists however if there has been substantial investment in obtaining, verifying or presenting the contents of the database. The owner of the database has a right for fifteen years to prevent the extraction and re-utilisation of all or a substantial part of the contents of the database.

5. Design Rights

Design rights can be both registered and unregistered. An unregistered design right is similar to copyright in that it is a right that arises automatically and no registration process is required. Unregistered design right is

regulated by the Design Right Act 1991 (Act of Tynwald). Unregistered design right protects the design of any aspect of the shape or configuration (whether internal or external) of the whole or any part of an article, provided that the design is not commonplace in the design field in question at the time of its creation. The right lasts for a period of fifteen years or ten years from the first sale or hire of the design.

A system also exists whereby designs can be registered under the Registered Designs Act 1949 (Act of Parliament) as this UK legislation extends to the Isle of Man. A registered design is a monopoly right for the appearance of the whole or part of a product resulting from the features of, in particular, the:-

- contours;
- lines;
- colours;
- shape;
- texture; or,
- materials;

of the product or its decoration.

The design itself is protected no matter what product the design is applied to. Registering a design gives the owner the exclusive right to the design in the United Kingdom and the Isle of Man for a maximum of 25 years. Before a registration will be granted however, the design must be “new” and have “individual character”, as these terms are defined under the legislation.

6. Confidential Information

Every business will own confidential information, the disclosure of which would be detrimental to the organisation. This may consist of information such as client lists and information relating to areas such as production processes, research and development, new business projects and any finances of the business.

It is arguable whether confidential information and/or trade secrets are distinct forms of intellectual property. However, whether they are regarded as forms of intellectual property or not, the law does provide the means by which they are protected. Indeed, in the case of information which can be commercially used, the law allows that information to be protected and exploited by the organisation that owns it. In addition, the law relating to protection of confidential information compliments the intellectual property rights system as it provides a form of legal protection to ideas and inventions before the stage when formal registration may be possible. For example, an idea may be at too early a stage for a patent application to be filed. However, to protect the idea prior to the patent application being filed, confidentiality agreements are essential if the idea requires to be shared with third parties.

7. Intellectual Property/Intellectual Asset Audits

The value of any business is increasingly tied to its intangible rather than its tangible assets. However, if you do not recognise what these assets are then you cannot generate value from them. All businesses should therefore be performing audits of their Intellectual Property and Intellectual Assets so that they can be managed effectively.

Intellectual Property and Intellectual Assets have value in that they can: -

- Be traded e.g., licensed, franchised, sold, mortgaged;
- Assist in business strategy, business models and alternative streams of income;
- Act as a marketing tools;
- Deter competition.

8. Intellectual Property and Intellectual Asset Management

The stages by which Intellectual Property and Intellectual Assets are managed include: -

- Gaining an appreciation of what to look for in your business;
- Identifying your Intellectual Property/Assets;
- Analyzing and prioritising your assets;
- Developing Intellectual Property/Assets management strategy;
- Communicating to investors, backers, employees, potential purchasers of your Intellectual Assets;
- Extracting value.

Intellectual Property audits are of benefit to all businesses at all stages of their development in the business lifecycle. To enable businesses to start measuring and obtaining value from their Intellectual Assets and Intellectual Property, it is necessary to first identify and thereafter protect and exploit these key resources. Identifying and understanding the assets of a business is fundamental to the effective management of that business.

Any Intellectual Property audit is design to allow the organisation undertake an initial appraisal of its Intellectual Property/Assets and to recognise and protect such. As an outcome of the audit, it is possible to produce an Intellectual Property/Asset register which can form an appendix to the company's business plan, marketing plan or other strategic documents.

9. Scope of the Audit

The objectives of the audit must be considered at the outset as should the scope of the audit. For example, are all categories of Intellectual Property or Intellectual Assets to be viewed exhaustively, or will the audit be focused on key product lines or territories?

Any audit consists of firstly, information gathering and secondly, the preparation of the audit report and lastly, the preparation of the audit register.

In undertaking any audit, ask yourself the following question: -

- what are the income generating areas of my business?
- what unique selling points does my business have? How does my business currently protect these?
- will the business mix change in the future?

10. Intellectual Property Assets and the Business Lifecycle

Formation

Depending on the nature of the business, it may benefit from protection such as registering a trading name as a domain name and registering trade marks. Intellectual Property audits may also be undertaken to limit liability and reduce the risk of claims of infringement of a third party's Intellectual Property Rights.

Raising Capital - Flotation/Loan/Private Investment

A managed Intellectual Property portfolio can help make a business seem more secure / attractive.

New Products/Technology

All Intellectual Properties should be fully protected and up to date. All new products and technology produced by the company should be assessed to determine what Intellectual Property protection is appropriate. Similarly, changes in the law require to be taken into account to assess impact on the business's portfolio to avoid potential liability.

With an estimated 80% of a company's value lying in its intangible assets, it is vital that organisations are fully informed and proactive to ensure their IP is protected. Legislation exists to protect IP but this is only effective if an organisation adopts a pragmatic approach and seeks appropriate advice which ensures that it operates within the legal framework.

For more specific advice on Intellectual Property Audits in the Isle of Man, we invite you to contact one of the following:

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