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To: Curator, Soil Co.

From: José Francisco Gierbolini, Esq.

Date: December 23, 2008

Subject: Letter of Council

We are present to you our legal opinion, in response to the following facts situation. The first electronic smoke detector was being marketed in competition with several products, which became activated by a rise in temperature above a critical level, the traditional approach to this problem. The new product had been successfully introduced by the proprietor, Soil Co., in the United States. It had captured a significant market share, was selling at a premium, and was profitable.

There was an existing US patent, and patent applications had been filed in England, Ireland and Brazil; some had already issued and others were pending. The proprietary image of the product had been enhanced by the fact that it was being marketed under a distinctive trademark, CONEX. Indeed, the trademark was becoming better known to the relevant market than was the "Soil" corporate name.

I. Controversies

We have analyzed the facts as provided by Soil Co. We believe that the case can be summarized in the following controversies:

A. What would we recommend to Soil regarding trademark, trade name and corporate name use in U.S.? In England, Ireland and Brazil?

B. Since knowledge of local and national safety codes (important elements to the US Government), as well as intimate contacts with real estate interests and building contractors, were considered to be crucial to long-term success, how would we advise Soil to distribute the product in England, Ireland and Brazil? Would this technology be subject to export restrictions in the U.S.?

In the case of England, they had to pay for the design and production of the Application of Specific Integrated Circuit (ASIC's) by a local source.

C. What type of transaction would we recommend to Soil regarding this situation presented in England?

In the Australia case, one company had an overwhelming market position in the sale of smoke detectors, and it would; therefore, be very difficult for a competitor to realize substantial sales, even though the CONEX electronic detectors were superior to the more traditional items being manufactured and sold by the market leader. At the same time, Soil was wary of simply granting a license to the leader, which had expressed interest. Soil feared that CONEX models might suffer discrimination in marketing emphasis in comparison with the Australian company's own proprietary items.

D. What solution would we suggest to Soil in order to pursue a business in Australia which would create restrictive commercial practices (Antitrust) in Australia and at the same time would not hamper the distribution opportunities in England, Ireland and Brazil?

1. Identify and suggest a legal structure.
2. Present legal alternatives for the upgrade of Soil products and discuss ownership practices and licensing issues in England, Ireland, Brazil and Australia.

II. Discussion

A. Trademark, trade name and corporate name use in U.S.? In England, Ireland and Brazil?

A trademark is a word, symbol, or phrase, used to identify a particular manufacturer or seller's products and distinguish them from the products of another.[1] Trademarks are governed by both state and federal law. Originally, state common law provided the main source of protection for trademarks. However, in the late 1800s, the U.S. Congress enacted the first federal trademark law. Since then, federal trademark law has consistently expanded, taking over much of the ground initially covered by state common law. The main federal statute is the Lanham Act, which was enacted in 1946 and most recently amended in 1996.[2] Today, federal law provides the main, and by and large the most extensive, source of trademark protection, although state common law actions are still available. In order to serve as a trademark, a mark must be distinctive, that is, it must be capable of identifying the source of a particular good.

In determining whether a mark is distinctive, the courts group marks into four categories, based on the relationship between the mark and the underlying product: (1) arbitrary or fanciful, (2) suggestive, (3) descriptive, or (4) generic. Because the marks in each of these categories vary

[1] 15 U.S.C. § 1127.
[2] 15 U.S.C. §§ 1051, et seq.

with respect to their distinctiveness, the requirements for, and degree of, legal protection afforded a particular trademark will depend upon which category it falls within.

Trade names are names or designations used by companies to identify themselves and distinguish their businesses from others in the same field. Trade names are used by profit and non-profit entities, political and religious organizations, industry and agriculture, manufacturers and producers, wholesalers and retailers, sole proprietorships and joint ventures, partnerships and corporations, and a host of other business associations. A trade name may be the actual name of a given business or an assumed name under which a business operates and holds itself out to the public.

Trade name regulation derives from the common law of unfair competition. The common law distinguishes between trademarks and trade names. Trademarks consist of symbols, logos, and other devices that are affixed to goods to signify their authenticity to the public. The common law of trade names encompasses a broader class of intellectual property interests, including trade dress and service marks. Trade dress is used by competitors to distinguish their products by visual appearance, including size, shape, and color, while service marks are used by competitors to distinguish their services from each other. Gradually, the law of trade dress and service marks has evolved into separate causes of action, independent from the law of trade name infringement.

A Secretary of State's permission for using a corporate name is fairly narrow. It is merely a finding that the name is not the same as, does not conflict with, and is not confusingly similar to any other corporate name registered in that state. Incorporating your company in whichever state you choose does not give trademark protection for your company name. The permission does not necessarily mean that you will have the legal right to use that name, because federal and state trademark laws may have granted prior rights in your chosen corporate name to a third party, which may ultimately be able to prevent your corporation from using the name, even if the name is available according to your state's Secretary of State.

The technology transfer process also includes various legal institutions that permit it to operate on a truly global scale. Protection of patents and trademarks may be obtained in virtually any country of the world through the mechanism of the International Convention for the Protection of Industrial Property, the so-called "Paris Convention," which was originally adopted in 1883 and has since been amended several times.[3]

Assuming that a trademark qualifies for protection, rights to a trademark can be acquired in one of two ways: (1) by being the first to use the mark in commerce; or (2) by being the first to register the mark with the U.S. Patent and Trademark Office ("PTO").[4] Remember, however, that descriptive marks qualify for protection (and can be registered) only after they have acquired secondary meaning. Thus, for descriptive marks, there may be a period after the initial use of the mark in commerce and before it acquires secondary meaning, during which it is not entitled to trademark protection. Once it has achieved secondary meaning, trademark protection kicks in.

We recommend to Soil regarding trademark, trade name and corporate name use in U.S. to fill the application we enclosed. For England, Ireland and Brazil Paris Convention recognizes expressly that:

[3] Goldscheider R., Technology Management. Law/Tactics/Forms/Clark Boardman Company, New York, 1991.
[4] 15 U.S.C. § 1127(a).

> "The right of priority means that, on the basis of a regular application for a patent, utility model, industrial design or trademark protection filed by a given applicant in one of the member countries, the same applicant (or its or his successor in title) may, within a specified period of time (6 or l2 months), have certain rights when applying for protection in all the other member countries. These later applications will be regarded as if they had been filed on the same day as the first (or earlier) application. In other words, these later applications enjoy a priority status with respect to all applications relating to the same invention filed after the date of the first application. They also enjoy a priority status with respect to all acts accomplished after that date which would normally be apt to destroy the rights of the applicant or the patentability of his invention."[5]

B. The advice Soil to distribute the product in England, Ireland and Brazil. The export restrictions in the U.S.

In order to achieve long-term success in the local market, we Recommend licensing a local distributor in England, Ireland and Brazil. Licensing is the process by which a proprietor of intellectual property rights permits others to use those rights under controlled circumstances. The rights themselves take a variety of forms. Some patents, designs, industrial models, trademarks, and copyrights, are defined by statutes in the United States and in virtually every other country in the world.[6]

In considering the licensing of technology, it is important to remember that foreign licensees may attempt to use the licensed technology to manufacture products in direct competition with the licensor or its other licensees. In many instances, U.S. licensors may wish

[5] Paris Convention Article 30, 2001.
[6] Goldscheider R., Technology Management. Law/Tactics/Forms/Clark Boardman Company, New York, 1991.

to impose territorial restrictions on their foreign licensees, depending on U.S. and foreign antitrust laws as well as the licensing laws of the host country. Also, U.S. trademark laws can often be used to bar unauthorized sales by foreign licensees, provided that the U.S. licensor has valid trademark protection in the United States or the other pertinent countries. In addition, unauthorized exports to the United States by foreign licensees can often be prevented by filing unfair import practices complaints under section 337 of the Tariff Act of 1930[7] with the U.S. International Trade Commission, and by recording U.S. trademarks and copyrights with the U.S. Customs Service.

As in all overseas transactions, it is important to investigate not only the prospective licensee but the licensee's country as well. The government of the host country often must approve the licensing agreement before it goes into effect. Some governments prohibit royalty payments that exceed a certain rate or contractual provisions barring the licensee from exporting products manufactured using the licensed technology to third countries.

The prospective licensor must always take into account the host country's: Foreign patent, trademark, and copyright laws; Exchange controls; Product liability laws; Possible countertrading or barter requirements; Antitrust and tax laws; and Government attitudes toward repatriation of royalties and dividends.

In October 1998, the U.S. Congress passed the Trademark Law Treaty, which simplifies the procedures for U.S. companies to register their marks abroad. Among the administrative provisions that ease the registration burden for U.S. trademark owners are: Standardization of

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[7] 19 U.S.C. § 1337

forms for applications, powers of attorney and changes of name, address, and ownership; Prohibition on certain requirements for notarization or other certifications of signature and for certificates or extracts from a register of commerce; and Adoption of the International Classification of Goods and Services.

The Council Regulation on Community Trademarks regulates the law and the registration of trademarks in the European Union. The Paris Convention and the Madrid Protocol are two other major international agreements. The Paris Convention provides that a trademark filing in a foreign country which is a member of the Convention will relate back to the earlier filing of the trademark in the owner's own country which is also a member, if the filing in the foreign country is within six months of the native country filing. The Madrid Protocol permits the owner of a registered trademark to register the mark in all member countries by filing a certificate of registration in a central registry in Switzerland. Although the United States is a member of the Paris Convention, it is not a signatory to the Madrid Protocol.

We have to be careful because of trademark rights can be lost through improper licensing or assignment. Where the use of a trademark is licensed without adequate quality control or supervision by the trademark owner, that trademark will be canceled. Similarly, where the rights to a trademark are assigned to another party in gross, without the corresponding sale of any assets, the trademark will be canceled. The rationale for these rules is that, under these situations, the trademark no longer serves its purpose of identifying the goods of a particular provider.[8]

[8] Dawn Donut Co., Inc. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).

The existence of a tax treaty or bilateral investment treaty between the United States and the prospective host country is an important indicator of the overall commercial relationship. Prospective U.S. licensors, especially of advanced technology, also should determine whether they need to obtain an export license from the U.S. Department of Commerce or other regulating agencies.

C. The transaction that we recommend to Soil regarding the situation presented in England.

A license, in the classic sense, is usually thought of as a grant by a proprietor to an unrelated third party of permission to use one or more intellectual property rights. The licensee makes a down payment and pays continuous royalties calculated as a percentage of sales. Many other forms of transactions may also be said to fall within a broad definition of licensing. These include: a complete technology transfer in which the licensor grants exclusive rights trademarks throughout the world or in certain defined national jurisdictions. This is akin to a sale but facilitates return of the rights to the proprietor if the licensee fails to honor the original deal; contributing the use of existing technology, and perhaps improvements as well in exchange for equity in a joint venture entity, whether minority, fifty-fifty, or majority owned; a sale of items in bulk for repackaging under controlled circumstances, or of knocked-down kits for assembly, with added royalties due upon resale of the finished article by the customer-licensee; granting a series of nonexclusive licenses to use a valuable ingredient trademark, provided strict quality controls are maintained, with the expectation by the proprietor that this will result in substantial sales of raw materials to the licensees. If properly structured, these transactions need not be considered illegal tie-ins under the antitrust laws.[9]

It should be recognized that licensing, particularly on the international level, can have many beneficial side effects for the licensor. At the outset of the relationship, sales to the licensee of ingredients, subassemblies, or models not yet being made by licensees may result, because, initially, licensees can rarely manufacture the full line of available technology included within the scope of the license. The licensee may also be encouraged to perform further research, with the understanding that royalty-free use, with a right to sublicense, will be granted back to the proprietor. Also, arm's length licenses have often proven to be a good way for unrelated companies to become acquainted; they have resulted in a variety of other profitable businesses between the companies and, frequently, in one party acquiring partial or complete equity control over the other.[10] The proper situation here for the business in England maybe the one for the licensee may also be encouraged to perform further research.

D. The solution we suggest to Soil in order to pursue a business in Australia which would create restrictive commercial practices (Antitrust) in Australia and at the same time would not hamper the distribution opportunities in England, Ireland and Brazil.

In a few instances, international technology licensing agreements can unlawfully restrain trade in violation of U.S. or foreign antitrust laws. As a general rule, U.S. antitrust laws prohibit international technology licensing agreements that unreasonably restrict imports of competing

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[9] Goldscheider R., Technology Management. Law/Tactics/Forms/Clark Boardman Company, New York, 1991.
[10] Ibid.

goods or technology into the United States or unreasonably restrain U.S. domestic competition or exports by U.S. persons.

Whether or not a restraint is reasonable is a fact-specific determination that is made after consideration of the availability of: Competing goods or technology; Market shares; Barriers to entry; The business justifications for and the duration of contractual restraints; and, Valid patents, trademarks, and copyrights.

A civil plaintiff suing under authority of Clayton Act[11] must, as a threshold matter, allege an "antitrust injury" to its business, regardless of the conduct alleged to have violated the antitrust laws. ("[T]he right of action under § 4 of the Clayton Act is available only to those private plaintiffs who have suffered antitrust injury.").[12] Thus, a civil antitrust plaintiff "bears the initial burden of showing that the challenged action has had an actual adverse effect on competition as a whole in the relevant market; to prove it has been harmed as an individual competitor will not suffice."[13] Noting that "a competitor may not claim an injury resulting from competition even when such competition was actually caused by conduct that violates the antitrust laws");[14] The federal antitrust laws "were enacted for 'the protection of the competition, not competitors.' "[15]

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[11] 15 U.S.C. § 15
[12] Atlantic Richfield Co. v. USA Petroleum Co., 495 U.S. 328 (1990).
[13] Capital Imaging Assocs. v. Mohawk Valley Med. Assocs., 996 F.2d 537, (3d Cir.1993); Andrx Pharmaceuticals, Inc. v. Biovail Corp. Int'l, 256 F.3d 799 (D.C.Cir.2001).
[14] Car Carriers, 745 F.2d at 1107.
[15] Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, (1977); Brown Shoe Co. v. United States, 370 U.S. 294, (1962).

Section one of the Sherman Act prohibits any "contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several states, or with foreign nations."[16] Therefore, in addition to establishing an antitrust injury to the relevant market that also injured plaintiff, a plaintiff pleading a Sherman Act violation must also allege (1) that defendants entered into some agreement for concerted activity (2) that either did or was intended to unreasonably restrict trade in the relevant market, which (3) affects interstate commerce.[17]

Whether the alleged restraint on trade is unreasonable is determined under either a rule-of-reason or a per se test. The rule-of-reason test takes into account all circumstances in assessing whether the challenged practice unreasonably restrains trade, and is presumptively favored.[18] Conduct that is manifestly anti-competitive or that would almost always tend to restrict competition may satisfy the per se test. However, "the Supreme Court has cautioned against the precipitate application of the per se doctrine."[19] This caution has been pronounced expressly in the context of professional associations.[20]

Section two of the Sherman Act makes it illegal to "monopolize, or attempt to monopolize, or combine or conspire with any other to monopolize any part of the trade or commerce among the several states, or with foreign nations."[21] A private plaintiff must allege an antitrust injury and two additional elements to make out a Sherman Act claim: "(1) the possession of monopoly power in the relevant market and (2) the willful acquisition or

[16] 15 U.S.C. § 1 (1997).
[17] Dial A Car, Inc. v. Transportation, Inc., 82 F.3d 484 (D.C.Cir.1996).
[18] Capital Imaging, *supra*.
[19] Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc., 441 U.S. 1, (1979).
[20] Federal Trade Comm'n v. Indiana Fed'n of Dentists, 476 U.S. 447, (1986).
[21] 15 U.S.C. § 2.

maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."[22]

Because of the potential complexity of international technology licensing agreements, firms should seek qualified legal advice in the United States before entering into such an agreement. In many instances, U.S. licensors should also retain qualified legal counsel in the host country in order to obtain advice on applicable local laws and to receive assistance in securing the foreign government's approval of the agreement. Sound legal advice and thorough investigation of the prospective licensee and the host country will increase the likelihood that your licensing agreement will be a profitable transaction.

1. Identify and suggest a legal structure.

In order to pursue a business in Australia which would create restrictive commercial practices (Antitrust) in Australia and at the same time would not hamper the distribution opportunities in England, Ireland and Brazil we suggest to Soil Co. to register a corporation in Australia.

2. Present legal alternatives for the upgrade of Soil products and discuss ownership practices and licensing issues in England, Ireland, Brazil and Australia.

For corporations registered in Australia they are a innovative programs.[23] Businesses nominating a technology for membership must: have an innovative, Australian technology that

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[22] United States v. Microsoft Corp., 253 F.3d 34, (D.C.Cir.2001); United States v. Grinnell Corp., 384 U.S. 563.

has global marketing potential; be a small to medium sized business with annual turnover of less than $10 million; have controlling ownership resident in Australia (in the case of individuals) or be registered in Australia (in the case of corporations); either own the Intellectual Property (IP) in their technology or have exclusive worldwide rights to commercialize the technology; be market ready with a clear commercialization strategy. You must demonstrate that your technology is: clearly innovative; scientifically credible; has significant local content; commercially attractive; demonstrably marketable and exportable; socially and environmentally beneficial.

Benefits which can be accessed during the three year Australian Technology Showcase (ATS) membership period may include: promotion on the ATS website and promotion in the ATS newsletter; support of a dedicated Business Development Manager; access to industry networking opportunities, seminars and expos; access to ATS Patrons' expertise; other state-specific benefits, subject to competitive access; use of the Australian Technology Showcase logo.

In addition to addressing the six application criteria, the application should also include: a current business plan; two independent referee reports addressing a number of specific issues (only one referee report is needed if the company/technology has received previous government assistance- see below); 2 years P&L and Balance Sheet. Applicants must complete and sign the Declaration at the end of the Membership Application Form. The Declaration requires the applicant to agree to abide by the Terms and Conditions of Membership, including the ATS Disclaimer.

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[23] http://ats.business.gov.au/Pages/HowToApply/BecomeAMemberHome.aspx

About Brazil in recent years, patenting and technology transfer activities have become institutionalized in Brazil. With regard to intellectual property, Brazil is at a crucial juncture. The government, especially in recent years, has released many incentives to innovation, which are reaching universities, R&D centers, and private companies. This certainly will increase patenting and technology transfer activities in the country and strengthen the relationship between public institutions (where the Brazilian research is mainly concentrated) and private companies, contributing strongly to innovation.[24]

In order to reduce the burden on would-be-exporters, the UK Government has issued a number of Open Licenses, which permit the export of certain specified objects without the need to obtain an individual UK license from the Department for Culture, Media and Sport. There are currently two types in operation: The Open General Export License (OGEL) and the Open Individual Export License (OIEL). The OGEL permits the permanent export of those objects valued at below specified financial thresholds. An OIEL is granted to a named individual, company or institution, to permit either the permanent or temporary export of specified objects. No OIEL is granted by the Department for Culture, Media and Sport without the agreement of the relevant Expert Advisers in the national museums and galleries and all of the open licences have conditions attached.[25]

[24] http://www.iphandbook.org/handbook/ch17/p16/
[25] http://ec.europa.eu/taxation_customs/resources/documents/cgoods_uk_en.pdf

III. Conclusions

We hope that the information we have provided helps in outlining a course of action. Please let us know if we can assist you further, should you decide to pursue our recommendations. For your convenience we have attachment Licensing contract and the needed applications.

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