



CONSULEGIS EWIV/EEIG

IP Newsletter
Intellectual Property,
Entertainment Law and
Information Technology
Specialist Group

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Greetings!

Welcome to the latest E-Newsletter from the Intellectual Property, Entertainment Law and Information Technology Specialist Group of Consulegis, an international network. The Consulegis network is comprised of more than 1,600 lawyers in 40 countries and more than 150 cities.

Consulegis members specializing in intellectual property, entertainment law and information technology law each provide professional services in their own specific country, and can collectively provide a unique, international team approach to issues involving multiple countries. Comprehensive services range from litigation to contract negotiations as well as protection of intellectual property rights and strategic planning.

Details are also inside as to how to obtain a copy of the Consulegis Handbook on International Intellectual Property Law Basics covering more than 30 countries.

Please contact us to receive further information on Consulegis, our Specialist Group, or how to obtain specialized assistance from any of our members.

Best regards,

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ARTICLES

NET SALES SPECTRUM	Page 2
By Sidney D. Bluming	
EMPLOYEES MAY NOW BE ABLE TO REAP THE REWARDS OF THEIR PATENTED INVENTIONS – UK	Page 3
By Jonathan Hassall	
GOOGLE’S RESPONSIBILITY DUE TO ITS AD-WORDS PROGRAM	Page 4
By Lilyane Anstett	
HARRY POTTER	Page 5
By Gary Rosen	
TRADEMARK INFRINGEMENT ON SOCIAL NETWORKING SITES	Page 6
By Oren Gelber	
COUNTERFEIT AND PIRATED GOODS – THE BURDEN OF PROVING BREACH SHIFTS IN THE UK	Page 7
By Nicola McNeely	
INTERNATIONAL INTELLECTUAL PROPERTY LAW BASICS HANDBOOK	Page 8
CONSULEGIS AUTUMN CONFERENCE, Toulouse, France	Page 9

NET SALES SPECTRUM



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Virtually every intellectual property license agreement, be it for trademark, copyright or patent, compensates the owner (“Licensor”) with royalties, i.e., payments based on percentages of turnover of the items containing the intellectual property. The first and most obvious negotiation point between the parties is the percentage to be applied. However, one almost equally critical point for the lawyer is the base against which the percentage is to be applied, almost universally called “net sales.”

The extremes are clear. The Licensor is best served with (and the lawyer heroic in obtaining) a definition equating net sales with gross sales, and beyond that, sales at what the prices should have been based on published price lists rather than actual invoice. Conversely, the licensee’s utopia is a definition equating net sales with net receipts. Most deals find a middle ground.

A classic definition for “net sales” is “the gross invoiced price of [covered products] shipped by Licensee, less returns (other than for credit), discounts and allowances.” The inclusion of these component deductions is itself the threshold negotiation. Within these components then lies further negotiating gambits. Returns can be further parsed into those for defective goods, non-conforming goods, excess inventory (voluntarily accepted back by licensee), etc. Discounts can include quantity discounts, trade discounts (for early payment) and cash discounts. Allowances, too, can include a wide range of items, including allowances for defective, damaged or missing goods, margin protection, advertising, restocking, etc.

In addition, often limits are put on what are otherwise acceptable deductions. For example, deductions for returns cannot exceed 2% of gross sales, or all deductions, regardless of the categories, cannot exceed 5% of gross sales.

The lawyer’s input in these negotiations can have a significant impact on the real economics of the deal, and must be cleverly executed, based on industry experience and knowledge of the business and the parties.

EMPLOYEES MAY NOW BE ABLE TO REAP THE REWARDS OF THEIR PATENTED INVENTIONS – UK

Recent UK case law means that employees who invent for their employers may now be able to receive some of the benefit of their work. Whilst this was always theoretically the case, it wasn't in practice.

The Patents Act 1977 § 39 provides that an invention made by an employee shall, as between him and his employer, be taken to belong to his employer if the invention is made as part of the employment. The employee, theoretically, has a right to claim compensation for the invention under § 40 of the 1977 Act but until very recently this didn't happen in practice.

However, in the landmark case of *James Duncan Kelly and Kwok Wai Chiu v. GE Healthcare Limited* [2009] EWHC 181 (Pat), the Patents Court made the first-ever award of compensation to employee inventors.

The employees were research scientists who synthesised a compound in the late 1980s. The company patented the invention and launched a highly successful product in 1994. The total sales of the patented product far exceeded £1 billion.

The Court found that Dr. Kelly and Dr. Chiu, although employed, had made an invention that was patented by the employer and the patent was of outstanding benefit to the employer. In the circumstances, it was just that the employees received compensation for their invention.

The practical effect of the decision remains to be seen, however, employers are likely to take steps to ensure that any such disputes are dealt with before claims are made. The success of any claims is likely to be limited given that the Court took care to ensure that only something special or out of the ordinary would be sufficient to warrant any compensation. It would be wise for both employees and employers to address such issues as soon as they arise.



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GOOGLE'S RESPONSIBILITY DUE TO ITS AD-WORDS PROGRAM



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Through three decisions dated May 20th 2008 opposing GOOGLE FRANCE and GOOGLE INC to LOUIS VUITTON (trademarks LOUIS VUITTON, VUITTON and LV), VIATICUM and LUTECIEL (trademark "Bourse des vols") and CNRRH (trade name EUROCHALLENGES), the Final Court of Appeal asks three prejudicial questions to the European Court of Justice (ECJ) :

- Do the trademarks Directive of December 21st 1988 and the EC Regulation nr. 40/94 of December 20th 1993 on the Community trademarks, authorize the trademarks holder to prohibit GOOGLE from putting at the disposal of advertisers key words reproducing or imitating the trademarks and promotional links towards sites proposing counterfeiting products ?
- If the trademarks are famous, can their holder be opposed to the use of these trademarks ?
- If the use of the trademarks as key words does not constitute a prohibited use, can the non-free referencing service provider be regarded as providing a service of the information company consisting in storing information provided by a recipient of the service, according to article 14 of the Directive 2000/31 dated June 8th 2000, so that its responsibility could not be required before it was informed by the trademarks holder of the illicit use of the sign by the advertiser ?

Innumerable decisions condemned GOOGLE on the basis of trademarks counterfeiting, for having included in the key words, trademarks used by thirds to refer their Internet site.

The proceedings before the ECJ are in progress.

The summary proceedings Judge in PARIS decided that an advertiser has to list, as negative key words, the trademarks of its competitors, so that they do not launch an inopportune advertisement (Court of PARIS, 17/09/2008, 2L MULTI-MEDIA vs. MEETIC, www.legalis.net).

The condemnation of GOOGLE and the advertisers, due to these key words, constitutive of unfair competition and advertising likely to mislead, is continuing (Commercial Court of PARIS, 23/10/2008, COBRASON vs. GOOGLE, www.legalis.net).

GOOGLE is considered having an activity of advertising agency, council and medium, so that it has to check the licit use by the advertisers of signs not belonging to them (Court of PARIS, 07/01/2009, RG 2006/15309, PIBD 889 III 1070).

HARRY POTTER

Last year, Harry Potter's magical powers left the world of fantasy and fiction for the drab confines of a federal courtroom. The case involved a copyright infringement suit brought by Warner Brothers and J.K. Rowling against RDR Books, the publisher of an "unauthorized" encyclopedia devoted to all things Harry Potter. The "Harry Potter Lexicon" was written by Steve Van Ark, an ardent Harry Potter fan. While Mr. Ark's attention to detail was clearly appreciated by Harry Potterheads worldwide, in the end it was doom and gloom for RDR's legal defense team.

Could it be that RDR and Mr. Van Ark violated the law by creating the definitive encyclopedic text on Harry Potter? Should Warner Brothers and Rowling be permitted to monopolize Harry Potter for all purposes—even to the detriment of well intentioned fans, bloggers, and movie aficionados? The case boiled down to a single issue: was the Lexicon a "fair use" of Harry Potter content under United States copyright law.

Critical to the question of fair use is whether the accused work is "transformative"; in other words, does the use serve a purpose different than the original work. If it does, then the accused work is said to be "transformative" and protected by the doctrine of fair use. However, an accused work can lose its transformative character when it borrows too heavily from the original expression.

In its 68 page ruling, the Court went through a detailed analysis of whether the Lexicon was a transformative work. The Court noted that the Lexicon contained large portions of all of Rowling's works, word-for-word in many cases, which weighed heavily against a finding of fair use.

The verdict: a victory for Warner Brothers and Rowling. It did not have to turn out that way. A reference guide, by its nature, offers ample protection from accusation of copyright infringement. But here, the Lexicon contained verbatim language from Rowling's works, far beyond what was necessary to serve its informational purpose.



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TRADEMARK INFRINGEMENT ON SOCIAL NETWORKING SITES



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Social networking sites are the newest Internet sensation. Internet social networking sites allow users to keep in touch with friends, share photos, thoughts and stories, re-connect with classmates and meet new people. While sites like MySpace, Facebook, and Twitter provide users with new ways to share their lives and interests with others, they also pose challenges for intellectual property holders.

Given their popularity, its not surprising that infringing uses of these social networking sites has emerged. For instance, MySpace and Facebook allow users to select a personalized url, such as www.myspace.com/pepsi or www.facebook.com/coca-cola. As a result, cybersquatters, and in some instance well-meaning but unaware users, have acquired urls containing trademark-protected terms. Twitter squatting (cybersquatting taking place on Twitter) has also developed because Twitter allows users to select their usernames, for example www.twitter.com/ford. Brand hijacking on social networking sites is due in large part to the minimal investment a squatter must make in the endeavor. Social networking sites are free services and pages can generally lay dormant and without need for maintenance. Thus a squatter can register a name and wait until the trademark holder realizes its mark has been grabbed and makes an offer to purchase the url or threatens to sue.

Policing is the key to preserving trademark rights in these new mediums. With respect to MySpace and Facebook, these sites offer recourse to intellectual property holders who's names have been hijacked. MySpace provides a trademark complaint which allows for the takedown of infringing urls and user pages. Facebook offers a means of preempting infringement by allowing rights holders to submit an application reserving brand name Facebook urls. The newest site, Twitter, has not yet established mechanisms for taking down an infringing account. However, companies may still be able to work with Twitter to recover the account, especially if the account has not been actively used.

COUNTERFEIT AND PIRATED GOODS – THE BURDEN OF PROVING BREACH SHIFTS IN THE UK

The UK Tax Authority (“HMRC”) recently changed their procedure for stopping and detaining potentially pirated or counterfeit goods, which increased the burden on right holders to stop and prevent potential infringement.

Old procedure

HMRC would detain any products or goods that they believed were pirated or counterfeit and inform the brand owner of the potential breach. The brand owner would then have 10 days in which to examine the goods and consider whether they infringed their intellectual property rights. If they believed that the goods infringed their rights then a witness statement would be submitted, and the goods destroyed by HMRC unless the importer objected.

Any objection would compel HMRC to commence proceedings at the local Magistrates Court to determine if the goods were counterfeit or pirated. HMRC would then destroy the goods if the Magistrates’ ruled in favour of the right holder.

New Procedure

HMRC will no longer seize goods based on a witness statement from the brand owner, but merely hold or detain goods for 10 days pending a Court hearing. The hearing will not be commenced automatically and the brand owner will have to instigate proceedings within the prescribed timeframe (10 days from receipt of a notice of detention sent by HMRC). In certain instances the detention period may be extended to 20 working days, but in the absence of court action no longer than this.

If no legal action is commenced within 20 working days, or the Magistrates rule against the brand owner, then HMRC will release the goods.

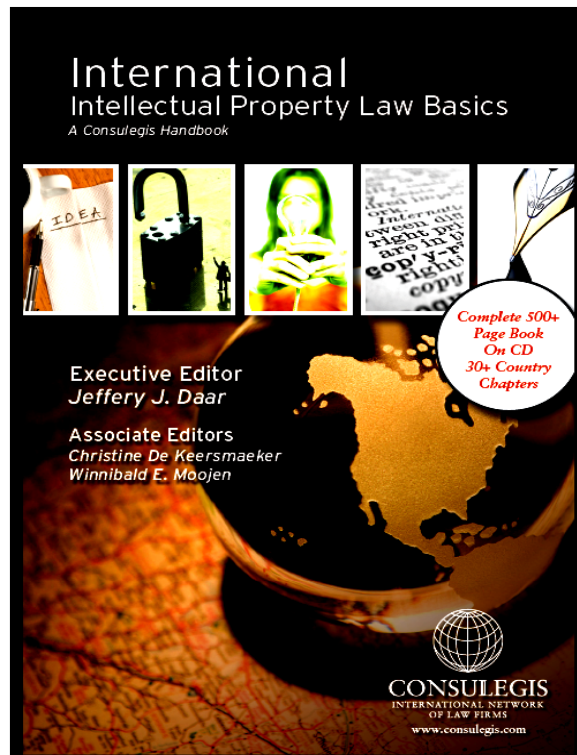
Capital Comment

The changes to the HMRC procedure are likely to increase the Courts’ workloads and place a heavier financial burden on right holders who seek to protect their interest. The new procedure may well see brand or right owners fail to adequately protect their IP rights due to the increased burden of evidencing breach.



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International Intellectual Property Law Basics, a Consulegis Handbook, provides a country-by-country look at copyright, trademark and patent law around the world. The basic intellectual property law for more than 30 countries and the European Union are covered. ***International Intellectual Property Law Basics*** is an easy-to-understand must-have resource in today's global world.

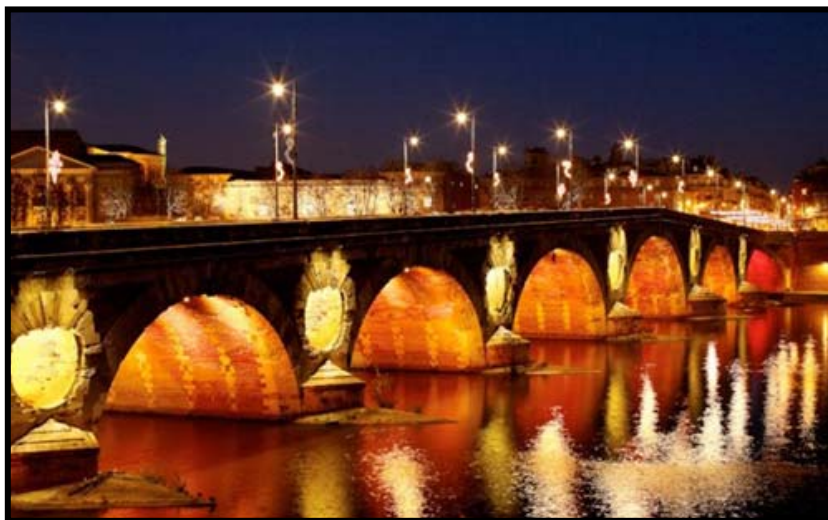
The Handbook may be obtained from Consulegis, EWIV/EEIG at :

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