



IP CONNECTIONS

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Going global with your brand, part 1: lost in translation

Without the proper care, your brand may be misinterpreted with embarrassing and potentially damaging results.

When expanding your brand to a foreign country, a question that may certainly arise is whether you should use and register your trade-mark translated into the local language. Is it sufficient to simply use and register the English or Latin script version of your trade-mark or is it advantageous to consider a translated (*i.e.* expressing the sense of a word in another language) or transliterated (*i.e.* representing a word in the closest corresponding letters of a different alphabet) version? If you choose to limit yourself to the English or Latin script version, have you considered whether it will take on a new, and perhaps unintended negative significance?

As discussed in the July/August issue of this newsletter, China is a growing economic power and is becoming a global IP superpower. When expanding into China, you should seriously consider converting your trade-mark into Chinese. First, the majority of the Chinese population does not understand nor read English, and will therefore not recognize your trade-mark as being a word, let alone be able

to pronounce it. Moreover, registering your trade-mark in English (or any other Latin script language) does not necessarily stop a third party from adopting and registering a transliterated version of your trade-mark since the transliterated version will most likely have a very different meaning and have a completely different appearance.

With respect to transliterations into Chinese, since the Chinese written language is comprised of characters, each having an associated sound and meaning, a transliteration into Chinese will take on a meaning that may at times be intelligible and nonsensical. For example, prior to Coca-Cola Company's launch in China, locals went ahead and transliterated the COCA-COLA trade-mark into Chinese with unfortunate results; the transliterations had meanings such as "female horse fastened with wax" and "bite the wax tadpole". Coca-Cola Company quickly rectified the situation by coming up with "ke kou ke le", which means "permitting the mouth to rejoice" in Mandarin. Care should therefore be taken when

transliterating a trade-mark into a language based on an alphabet other than the Latin alphabet. Transliteration concerns are therefore not limited to China and other countries in Asia, but also extend to the Middle East, as well as Russia and Greece.

However, transliterations are not the only problem. Translation blunders abound. Going back to China for a moment, KFC's slogan "finger-lickin' good" was translated to "eat your fingers off" while Pepsi's slogan "Come alive with the Pepsi Generation" was translated to "Pepsi will bring your ancestors back from the dead". In Japan, the slogan "Salem – Feeling Free" for Salem cigarettes was translated into "When smoking Salem, you will feel so refreshed that your mind seems to free and empty". Moving on to Spanish speaking countries, Braniff's slogan "Fly in leather" came out as "Fly naked" while Coors slogan "Turn it loose" was read in Spanish as "Suffer from diarrhea". Not to be outdone, Parker Pen's slogan "It won't leak into your pocket and embarrass you" was mistranslated into "It won't leak in your pocket and make you pregnant" when the company mistakenly thought that the word "embarzar" (to impregnate) meant "to embarrass". And finally, an American t-shirt maker in Miami apparently printed shirts promoting the Pope's visit to the Spanish community which, instead of reading "I saw the Pope" (Pope being "el Papa" in Spanish), the shirts read "I saw the potato" (potato being "la papa" in Spanish). So close and yet so far!

Just when you thought it safer to forego translations altogether, think again. Imagine for one moment Clairol's consternation when it introduced its MIST STICK curling iron in Germany only to realize that "mist" in German is slang for manure. Coined trade-marks can also be problematic. For example, Daewoo's ESPERO trade-mark for its car means "I wait" in Spanish. Better yet, Vauxall's NOVA trade-mark for its car means "no go" ("no va") in Spanish.

While the veracity of some of the above blunders has been called into question, the take home message remains simply this: when going global with your brand, you must consider the advantage – and in some cases

the necessity – of translating or transliterating your trade-mark into the local language. If the decision is made to translate or transliterate, as the above examples show, care must be taken in order to avoid any embarrassing and potentially damaging blunders.

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Tapping into the IP mosaic in your product

Maximise the security of your key products with different forms of IP protection.

In life, imitation is the sincerest form of flattery. In business, imitation of your products is a threat to your livelihood. Intellectual property protection can be an invaluable tool for preventing competitors from wrongfully benefiting from your products' successes. But what form of IP protection (patent, trade-mark, copyright, industrial design or trade secret) is appropriate for your products?

Conventional wisdom might suggest that one form of IP protection is best, and that it is dictated by the nature of the product. For example, the instinctive choice for protecting a functional product such as a lawnmower may be with a patent, while a new line of clothing may be thought best protected by trade-mark.

In reality, a product may contain various forms of intellectual property, each capable of independent protection. By seeking different forms of IP protection for various aspects of a product, it may be possible to create a "thicket" of IP protection around the product that is much more effective in hindering competitor duplication than a single form of IP protection.

Consider two hypothetical products: a (low-tech) board game and a (high-tech) portable digital audio player (MP3 player). As shown below, various aspects of these products might be protected using different forms of IP protection.

Board game

Board layout, shape of playing pieces

(industrial design): a game board typically has a layout upon which playing pieces are moved in response to certain conditions (e.g. the roll of a die). If the layout and the playing piece shapes are original, they may be registrable as industrial designs.

Name (trade-mark): a manufacturer may promote a game through conventional advertising or may rely upon simple word-of-mouth promotion to increase public awareness of the game (e.g. "Have you played Trivial Pursuit® yet?"). By registering the name of the board game as a trade-mark, the manufacturer may be able to prevent other board game manufacturers from attempting to benefit from such promotion by using the same or similar names for their games.



Playing instructions (copyright): a writer may have spent significant time and effort in wording the playing instructions of a board game for maximum readability, in order to avoid frustrating would-be players. Copyright protection can prevent competitors from adopting the same wording.

Board or timer mechanics (patent): a game board may be designed to be foldable for storage or may incorporate a timer that, e.g., suspends countdown when a playing piece stops on a particular space. If such functional features are new, they could be protectable by patent.

Portable digital audio player device

User interface, earphone storage mechanisms

(patent): if a portable digital audio player device has been designed to have, for example, a new, efficient user interface or a novel, integral compartment for conveniently storing earphones when the device is not in use, patent protection could be available for those functional features.

Brand name (trade-mark): consumers may consider a particular brand of portable digital audio player to be desirable despite failing to appreciate how, or even if, the product is

technologically superior to other products. This illustrates the importance of protecting the name by which the product is known with a trade-mark registration.

Method of manufacture (trade secret or patent): if a digital audio player device is manufactured using a method that significantly reduces production costs, then the method itself likely has considerable commercial value. Assuming that the method is not readily apparent from the manufactured device and that its secrecy can be maintained in the factory, trade secret protection may be an appropriate protection mechanism. Otherwise, the method could be protectable by patent.

Shape of device, graphical user interface icons (industrial design): the ornamental shaping of a digital audio player device or the appearance of icons in its graphical user interface may be protected as industrial designs if they are new and sufficiently different from known designs.

A competitor who is faced with more than one form of IP protection for your key products may think twice about developing similar products and may instead move on to less troublesome targets.

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The costly repercussions of patent infringement

Those found guilty of infringing a patent often find that the damages reach far beyond the bottom line.

Newspaper stories about companies involved in patent infringement suits are becoming quite commonplace. There are often headlines that sensationalize the exorbitant sums being paid in damages by companies who have been found guilty of patent infringement. Unfortunately, what often doesn't get noticed by people reading these stories is that being on the wrong side of a patent infringement suit can have far-reaching and often devastating consequences that go well beyond the mere payment of damages.

We take *Verizon v. Vonage* as a model example.

In June of 2006, telecommunications giant, Verizon, launched a patent infringement suit against Vonage, a broadband Internet phone company. Verizon alleged that Vonage infringed seven of its patents directed towards Voice over Internet Protocol (VoIP) technology. Verizon, a large, and well-known telecommunications company, provides home phone and cell phone services to customers in the U.S.

Vonage, on the other hand, is a smaller company that focuses on providing Internet phone services using VoIP technology. VoIP technology is generally offered to customers at a reduced price in comparison to standard telephony services. Due at least in part to these price differences, Vonage has rapidly grown to one of the largest providers of VoIP services in the U.S., with a customer base of well over two million subscribers.

Unfortunately, part of Vonage's growth has come at the expense of Verizon's customer base, thus prompting Verizon to launch the 2006 patent infringement suit against Vonage.

In March of 2007, Vonage was found guilty of infringing three of Verizon's patents, and was ordered to pay the hefty sum of \$58 million in damages, and 5.5% in royalty fees. In addition, in April of this year, a judge issued an order preventing Vonage from signing up any new customers for its VoIP services. Although this judgement was stayed pending an appeal, it nevertheless had the direct effect of causing Vonage's share prices to plummet. Shortly after the April ruling, Vonage's share price had fallen 83% from the share price at the time of their initial purchase offer.

While Vonage is currently appealing the infringement ruling, and it is possible that the ruling will be reversed, the effects of the patent infringement suit have been quite damaging. Already, Vonage has had to face a sharp decrease in their share price, deal with the possibility of being unable to sign up new customers, and has had to spend significant money and resources on trying to "design around" Verizon's patents. While the patent infringement suit has not put Vonage out of business, the effects this patent infringement suit provide a prime example of the consequences of patent infringement going far beyond the payment of damages and royalties.

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Joint ventures and intellectual property: who did what? And when?

Joint ventures have become a common way for two entities to come together, share resources and achieve goals that would not be possible for either of them working on their own. In complex and competitive fields such as life sciences and pharmaceuticals, joint ventures can be used to combine the knowledge and skill of one party with the financial resources of another. However, as with any situation where different parties come together in a commercial context, it's important that the parties establish a framework for their venture that addresses the potential risks and that withstands the test of time.

There are several different types of joint ventures, but a common one seen in the area of research is a "paper" joint venture in which independent parties work together but remain separate entities. The terms of the joint venture are set out in a contract, often called a Joint Venture Agreement or, sometimes, a Collaboration Agreement.

An important aspect of any Joint Venture Agreement is the section addressing intellectual property ownership and the right to exploit inventions. Often, one or more parties come into the joint venture already owning intellectual property which is sometimes called "background intellectual property". It may consist of patent applications but it also frequently includes unpatented inventions, trade secrets and know-how. Usually, an intellectual property owner will want to ensure that it doesn't lose the ownership of this property as a result of the joint venture arrangement, so the Joint Venture Agreement will often contain provisions establishing that each party retains ownership of its background intellectual property. The Agreement will also usually address ownership of any inventions made during the course of the joint venture project. The parties will either agree to co-own the new intellectual property, or they will agree to divide ownership based on predetermined criteria.

All too frequently, Joint Venture Agreements fail to provide any details about the background intellectual property and they are often very soft on reporting requirements. Years later, it can be a challenge to figure out which inventions were made at what time, and

which party owns what intellectual property. The problem is exacerbated if several years have passed and the individuals involved have moved on to new jobs. When one party is in the process of trying to attract financing, or trying to sell intellectual property, it can be a difficult process to prove ownership of important intellectual property.

In order to avoid future problems, a few simple steps can be taken at the beginning of a joint venture, and during the progress of the joint venture project, to clarify intellectual property ownership:

1. The Joint Venture Agreement shouldn't simply state that each party retains ownership of its "background intellectual property". Where one party owns an important invention, or a trade secret, the Agreement should describe the property in sufficient detail that a third party could determine, to the extent possible, what it was at a later date.
2. Every Joint Venture Agreement should include an obligation to provide periodic reports which describe any inventions made during the course of the project. All too often, the reports provided during, or after completion of a joint venture project consist of a list of experiments, along with tables of numerical data. It's far more useful if the parties describe their discoveries and provide the dates that they were made, so as to provide a record of inventorship for future use.
3. The parties to a joint venture should ensure that they obtain invention assignments at the time that inventions are made. Not only do these assignments provide important evidence of the relevant dates, they also simplify the process of proving ownership.

By taking these simple steps, the parties to a joint venture can clarify their rights when the project begins and save themselves considerable expense and trouble down the road.

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Licensing basics: part 2

This second article of our continuing series on IP licensing discusses various forms of compensation.

Show me the money (or some other kind of consideration). In exchange for granting a license to subject matter covered by IP rights, the Licensor will wish to be compensated in some form or another. Very often the compensation for the Licensor is provided in the form of cash. The payments can be structured in many different ways, such as an up-front payment and/or a payment spread out over part or all of the term of the license. The payment may be linked to the amount of the Licensee's revenue or profit, or to the level of sales of licensed goods. For example, a royalty is often paid by the Licensee based on a percentage (usually, but not always in the range of about 1-10% of sales). The payments may escalate or decrease over time and/or depend upon the level of sales.

It is advantageous for the Licensor to have a compensation scheme where the amount owing can be readily ascertained and minimizes the prospect of disputes. For example, the Licensor can try to base a royalty upon the actual numbers of units made under the license (thus obviating prospects of licensed products being given away by the Licensee at less than fair market value) in exchange for other consideration being given to the Licensee. However, more often the royalty is based upon actual sales of licensed products (either volume of licensed products sold, or upon the revenue derived from such sales). Where the royalty is unit-based, the Licensor

should try to avoid having to take into account any products that are "given away" or any "returns" or the like. This would just complicate the calculation.

If the payment to the Licensor is linked to the number or value of licensed products made or sold, the Licensor is often well advised to obtain protection in the form of performance clauses and/or minimum royalty provisions. Performance clauses may for example require the Licensee to sell a minimum amount of product in a given time period, otherwise be subjected to some kind of negative consequence, including possibly providing the Licensor with an option to terminate the license. Similarly, should the royalty payment in a given time period fail to reach a threshold, a minimum payment provision could be activated.

While not discussed in detail here, it is also important that the Licensor have adequate audit and reporting provisions, and that once the license has been executed, that the Licensor utilize these provisions to monitor the compliance of the Licensee. Licensees, however well intentioned, can make mistakes in their counting!

To further encourage Licensee compliance with payment obligations, the license might also provide for additional compensation to be paid to the Licensor if the Licensee does make a "mistake", particularly if it's a big mistake!

In addition to payments of money, the Licensor may also or alternatively seek non-monetary compensation. The available types of non-monetary compensation are limitless, and may be broadly considered as anything that has value to the Licensor. Some typical examples of non-monetary compensation include a license-back from the Licensee to Licensee's IP rights. It should be noted that when licensing his own IP rights to a Licensee, a Licensor may be able to secure his own license to a Licensee's IP rights on relatively favorable terms. Particularly if the Licensor is intending to operate in competition with the Licensee, a failure to secure rights to Licensee's present and future IP rights, may leave the Licensor at a significant disadvantage in the marketplace.

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Recent developments in brief

CIRA rules on griper's rights. June 25, 2007. In Canada, the Canadian Internet Registration Authority – the group that oversees the registration of domain names – has a panel that rules on disputes relating to its policy. McKee Homes, Ltd., a residential construction company in Alberta and the owner of mckeehomes.com, filed a complaint about the use and registration of mckeehomes.ca by a disgruntled customer. The customer was using the .ca website to provide a forum for clients of McKee homes to exchange information, commonly known as a “gripe site”. While the panel indicated that they believed that the unhappy customer had a grievance with McKee Homes and they also accepted that the right to free speech entitled the customer to express her views on the matter, she did not have the right to register a domain name using the identical name. As a result, the panel ordered the .ca domain name to be transferred to McKee Homes.

Music industry takes aim at iPod users. On the streets, on the public transit, in the grocery store and sometimes even in the back pew – iPods can be seen everywhere. This has not escaped the attention of the representatives of the music industry, who are scrambling to safeguard the financial interests of creators in the face of ever new and rapidly changing technology and copyright laws that must be somehow be applied to situations that had not been conceived of at the time the legislation was drafted. The latest face-off, between The Canadian Private Copyright Collective, which represents the music industry, and the Retail Council of Canada, which represents retailers of iPods, was reported in the *Globe & Mail* on July 23, 2007. The music industry would like to classify the iPod as not just a device that plays music, but also a recording device, which would make it subject to copyright levies, potentially ranging between \$5 and \$75 per iPod, depending upon how many songs it holds. Retailers are resisting this classification, which would, of course, drive up the price of an iPod for consumers. Attempts to come to an agreement are ongoing and it remains to be seen whether iPod users will be joining the ranks of those in the music chain who will be making a contribution to the industry.

International Possum Brotherhood triumphs in Trade-Marks Office. Fans of the Red Green Show will be relieved to know that the honour of the International Possum Brotherhood has been upheld in a recently reported decision of

the Opposition Board, that issued in September of 2006. An individual from Elliot Lake applied to register POSSUM LODGES for the sale and rental of recreational cabins, cottages, and the like. The owners of the Red Green Show successfully opposed, even though the Red Green Show trade-marks were for the production of films and videos for television and related services and promotional items. The Opposition Board found that while the businesses were quite different, it was quite possible that Canadian consumers would assume that there was some connection between the television show and the POSSUM LODGES accommodation and restaurant services. As a consequence, the application was refused.

Nissan free to use M trade-mark. Federal Court of Appeal, July 12, 2007. As reported in the May/June 2007 issue of *IP Connections*, the Federal Court held that Nissan was not permitted to use its “M” trade-marks due to the presence of BMW’s family of trade-marks beginning with the letter “M”. The Federal Court of Appeal has reversed the decision, once again freeing Nissan to use the M marks in association with luxury vehicles. Although BMW advertised and distributed promotional materials containing its M marks, the Court noted that the M marks did not appear directly on the cars or in materials given to purchasers at the time of purchase. In addition, BMW failed to show any damages that occurred as a result of Nissan’s use of the M marks.

Grey marketing remedy maintained. Supreme Court of Canada, July 26, 2007. In the July/August 2007 edition of *IP Connections*, we told you about the decision of the Federal Court of Appeal in *Kraft Canada Inc. v. Euro Excellence Inc.*, 2005 FCA 427. As we mentioned, that case was on appeal to the Supreme Court of Canada. The Supreme Court of Canada has now disagreed and overturned the decision of the Federal Court of Appeal. In a decision handed down on July 26, 2007 in *Euro-Excellence Inc. v. Kraft Canada Inc.*, 2007 SCC 37, the Supreme Court of Canada has maintained the status quo by leaving the door wide open to rights holders to use copyright in artistic works displayed on product packaging to prevent the importation of grey market goods into Canada. However, in order to do so, the copyright must be assigned to a separate Canadian entity. Granting an exclusive licence is not enough.



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Virtually every member of our firm has an engineering or scientific educational background and many also have post-graduate degrees. More than two-thirds of our firm members, including most of our lawyers, are registered patent agents.

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- IP management and strategic counselling
- Domain names
- E-commerce

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