

MANUPATRA INTELLECTUAL PROPERTY REPORTS

- Where two marks are not deceptively similar to each other and are not likely to confuse the public, they ought not to be removed. 0054
[*Allied Blenders & Distilleries Pvt. Ltd. v. M/s. John Distillers Limited and Registrar of Trade Marks*]
- The onus is always on the Applicants for registration to prove their case for the grant of registration and also to show that the Trade Marks if registered would not cause any confusion or deception. 0080
[*M/s. Societe Des Produits Nestle S.A. v. The Registrar of Trade Marks and Ors.*]
- Non disclosure of an unsuccessful application for patent for the same product qua which injunction was claimed constituted a reason enough for denial of interim relief SNC-1
[*Merck Sharp and Dohme Corporation & Anr. v. Glenmark Pharmaceuticals Ltd.*]
- The SC of the United States ruled that patent legal malpractice claims do not arise under federal law and can be handled in state courts C-3
[*Gunn ET AL. v. Minton*]
- Apple is currently seeking reinstatement of \$85 million in dismissed damages and has filed a conditional motion for a new trial in this behalf. D-1
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CONSULTING EDITORS

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The Architecture of Intellectual Property Holding Companies

Krishnaveni S*, Dr. Sudhir Ravindran**

This article analysis the benefits of centralized ownership of Intellectual Property assets, the strategic planning of managing its legal, marketing and administrative matters in a separate entity known as the Intellectual Property Holding Company. It also explores how objectifying IP in a separate holding company helps in commercializing it separate from the operations and goodwill of the parent and identifies the tax havens in which IP holding companies have started flocking together.

Introduction

In the technology-driven environment, intellectual property represents a very significant proportion of the wealth and assets of most businesses. "IP" is often the "crown jewel" asset of a company, both as an unrealized asset and as a realized one, more importantly, in terms of the revenue that IP could generate if properly and fully exploited over time. As companies try to harness innovation and technological advances and create product and service differentiation, these assets are playing a greater role in corporate investment decisions. Business houses are employing various means to secure, exploit and consolidate their IP, the latest being to house them in IP holding companies.

Forms of IP

Although the existence of various forms of intellectual property can be traced to antiquity,¹ the impact of intellectual property on the economy, workplace culture, society, and daily life is a more recent phenomenon. Intellectual property (IP) refers to creations of the mind: inventions, literary and artistic work's, and symbols, names, images, and designs used in commerce. IP is divided into two categories: Industrial property, which includes inventions (patents), Trade Marks, industrial designs, and geographic indications of source; and Copyright, which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings,

* Head Research. Altacit Global, research@altacit.com

** Attorney. Altacit Global, ravindran@altacit.com

1 The first trade secrets case in the United States involved the debt on a bond secured in part by a secret chocolate making process in 1837.4 In 1884, Ara Shipman loaned Lewis Waterman \$5,000 to start a pen-manufacturing business, secured by Waterman's patent.- Intangible Asset Monetization. The Promise and reality By Roland Furrow Athena Alliance Available at <http://www.athenaalliance.org/pdf/Intangib'eAssetMonetization.pdf>

Protecting intellectual property is crucial to the success of the business and critical to ensuring the competitiveness in most inventive sectors

photographs and sculptures, and architectural designs. Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and those of broadcasters in their radio and television programs.² Protecting intellectual property is crucial to the success of the business and critical to ensuring the competitiveness in most inventive sectors.

Hidden Value of Intellectual Property (IP)

All businesses own IP. Many do not realise it³, as the IP may not take the form of deliberately created patents, copyright or Trade Marks⁴. As a result, ownership is often fragmented. Similarly, IP because it does not involve any uprooting of physical assets (land, buildings, plant or machinery) is highly mobile. It's also relatively simple to achieve, as moving IP Rights involves only a change of ownership. Generally it is assumed that only large corporations with profitable names, logos and brands to protect are

the only ones who really possess a need to safeguard intangible assets. But basically anything that is written, visually created, and unique to an individual is intellectual property which means that millions of individuals own more than they believe.⁵ Few reasons why it is prudent to safeguard intangible assets. Intellectual Property has several advantages on a legal, commercial and financial level. The legal advantages provided by Intellectual Property Rights (IP rights) include the right to prevent third parties from using the same technology, an identical or similar name, design or shape. IP rights are also powerful tools to negotiate partnerships and other legal agreements. Based on these legal advantages, IP rights will confer a commercial advance. The exclusive aspect of the product, manufacturing method and/or service may indeed be used as a commercial tool to attract new customers and to keep existing customers. IP rights also create an innovative image which can be largely promoted. Intellectual Property is a recognition factor providing greater credibility with your partners. It is also a way to support creations and innovations when negotiating with partners, and build a reputation⁶. IP rights may also help in expanding into other markets by opening new markets to exploit products and/or services and to find new alliance partners abroad. Internally, IP allows assessing the

2 http://www.wipo.int/sme/en/documents/value_ip_intangible_assets.htm

*3 When it comes to the subject of intellectual property, however, most companies still think of it only in terms of legal definitions - patents, trade/service marks, copyrights, and trade secrets. When most people think of patents they think of physical inventions. However, it is possible to patent a way of doing business. It's called a "business method" patent and has been used by companies such as UPS, Amazon.com, and eBay. Progressive Casualty Insurance, for example, has a patent on a method for setting car insurance prices based on monitored driver characteristics. Available at http://www.pwr-consulting.com/docs/MAS1654_PWR_IP_PART1_low.pdf

4 Accounting issues . IP Australia available at www.ipaustralia.gov.au/manage-your-ip/...ip/accounting-issues/

5 The Importance of Protecting Intellectual Property <http://www.interparty.org/importance-of-protecting-intellectual-property.html>

6 why are Intellectual property rights important available at <http://www.theglobalipcenter.com/why-are-intellectual-property-rights-important>

novelty of an innovation or the pertinence of a name and encourages finding ever more creative solutions. Last but not least, financial gains may be derived from Intellectual Property when protected by IP rights. Exclusivity may lead to higher sales or higher sales prices. IP rights are for example also useful for licensing activities, selling a business or securing financing. IP rights can also be sold independently, or put in IP rights pools to obtain more direct and tangible financial return. Strong and Enforced Intellectual Property Rights Protect Consumers⁷. Intellectual Property Drives Economic Growth and Competitiveness. By protecting your intellectual property, you help others to avoid scams and fake products. Having understood the significance of IP it is imperative to identify the same by means of an IP Audit.

An IP Audit is defined as a systematic review of the IP assets owned, used or acquired by a business

IP Audit

To discover which areas of your business may need IP protection it's a good idea to perform an IP audit. An IP Audit is defined as a systematic review of the IP assets owned, used or acquired by a business. Its purpose is to uncover under-utilized IP assets, to identify any threats to a company's bottom line, and to enable business planners to devise informed

strategies that will maintain and improve the company's market position. The audit should cover all aspects of IP, including the formal rights, copyright, patents, Trade Marks and designs, as well as the informal IP which includes technical know-how and trade secrets. It must also include advice on building an IP management strategy. As well as pinpointing potential problems the audit will also provide guidance tailored to how to integrate IP management into your business practices including; how and when to rely on confidentiality agreements to protect intellectual assets, licensing strategies and enforcement of their IP rights⁸.

Furthermore, an IP audit may uncover potential risks to your business that could ultimately result in costly legal proceedings with employees or third parties. There are two steps in the IP audit. The first step is to identify IP. The second step is to assess what your rights are in relation to each item of IP identified⁹. IP Audits may be performed at regular intervals to uncover IP and manage it effectively. Regular audits will help a company uncover IP and streamline the processes in the light of its changing business goals. IP Audits may also be carried out at the time of entering into transactions such as licenses, joint ventures, research collaborations and so on. In such situations, IP Audits will help parties to enter into risk free relationships. It is advisable to carry out an IP Audit at least once every two (2) years or at more or less frequent intervals based on the IP dynamics of a company¹⁰. As protection

7 Why Protect Your IP? Available at <http://www.freylinger.com/de/node/354>

8 How to protect your business' intellectual property How to protect your patents, designs, trademarks and copyright on the web By David Howell. Available at <http://www.techradar.com/news/world-of-tech/roundup/how-to-protect-your-business-intellectual-property-1086874>

9 Intellectual Property Holding Companies: A Strategic Analysis- George C. Lewis, J.D., P.E. of Merchant & Gould and Joseph R. Enzor, J.D., LL.M. of Enzor Law G available at <http://www.iptoday.com/articles/2009-5-lewis.asp>

10 <http://www.kemplittle.com/OurEvents/EventsDownloads/Holding%20and%20Exploiting%20Intellectual%20Property.pdf>

of IP makes business lucrative it should be secured to protect the interest of the holder.

Exploitation of IP

Some of these assets are registered as Trade Marks, designs or patents in the countries where protection is sought, for example, in countries where a certain product is being brought to the market. Once the value of IP assets has been protected through registrations, the next step is to monetise those assets. Invest in well-written non-disclosure agreements (NDAs)¹¹. Make sure your employment agreements, licenses, sales contracts and technology transfer agreements all protect your intellectual property too. Commercialisation is the process of getting your IP to market. It can either be by self or through a partnership or a combination of the two. There are a number of options available when commercialising with partners. In licensing, the owner might give up the right to commercialise but not the ownership of the IP itself. Exclusive licences are the most common commercialisation mechanism used. There are a number of shades of exclusivity - product, field, territory restrictions or a combination of these. Licences include Trade Mark licences and franchises.¹² Assignment is not licensing, it involves transferring or selling the IP - the owner retains no rights to the IP. Other mechanisms for commercialising IP are a start-up company involving a venture capitalist or a joint venture with other parties or established companies. This can be done through assignment or licensing¹³. To further secure the IP assets now

business houses are resorting to holding them in separate companies for better exploitation and asset protection. By holding them separately, royalties received can be accumulated in a tax efficient environment and IP assets can be sold without being subject to any Capital Gains Tax.

Holding Company

A holding company is a special type of business, it is organized specifically to hold stocks, bonds, mutual funds, gold, silver, real estate, art, patents, copyrights, licenses, private businesses, or virtually anything of value to other companies.¹⁴ The term holding company comes from the fact that the business has one job: to "hold" other investments and does not produce goods or services itself. History is filled with examples of amazing holding companies, In India Bajaj Holding & Investments, TATA Investment Corporation, Wiliamson Magor & Company are worth mentioning. Apart from the Bajaj and Tata Group holding and investment companies, there are many other companies like Aditya Birla Nuvo, Max India, Godrej Industries and Zuari Industries that have several smaller entities in the form of subsidiaries within them¹⁵. Many modern day foreign corporations such as General Electric or Bank of America are really holding companies because they own a bevy of smaller businesses; e.g., Bank of America is actually a holding company, owning control of the stock of other private companies including the eponymous bank, insurance businesses, asset management companies, securities underwriters, and more.¹⁶

11 Available at <http://www.ipo.gov.uk/licensingbooklet.pdf>

12 Control of trademarks by the Intellectual Property holding company by Pamela S. Chestek Available http://ipmall.org/hosted_resources/IDEA/1.Chestek01.pdf

13 http://www.shelstonip.com/news_story.asp?m=1&y=2007&nsid=55

14 <http://www.iptoday.com/articles/2009-5-lewis.asp>

15 www.cpaglobal.com/newlegalreview/.../offshoring_your_ip_holdings

16 IP Holding Companies and Infringement Litigation by Joseph Ferraro and Daryl Fairbairn available at http://www.utcle.org/eLibrary/preview.php?asset_file_id=116

Creating a separate entity, solely for the purpose of owning your IP, is the quickest, easiest, and cheapest way to insure the goodwill associated with the business

Rational for a IP Holding Company

Creating a separate entity, solely for the purpose of owning your IP, is the quickest, easiest, and cheapest way to insure the goodwill associated with the business'.¹⁷ IP holding companies are established for various reasons including:

- Administration – to facilitate centralized management of all the intellectual property assets of a group;
- Asset protection – to quarantine the intellectual property from claims against the operating company/ies exploiting it. By placing the intellectual property in a non-trading entity, which does not have a contractual or other relationship with customers, it becomes less likely that a customer or other third party can bring a claim against the owner of the intellectual property.¹⁸

- Taxation/finance – to enable revenue to be generated in low tax jurisdictions or jurisdiction that does not tax royalty income received from licensing intellectual property.¹⁹
- Structured finance or securitisation – to enable the intellectual property assets to be effectively separated from other assets so they can be made available as security or sold; and
- Disposal/spin-off – to facilitate the sale of the intellectual property or spin-off.²⁰

Apart from the Tax benefits the company saves on, the creation of IP Holding Company also increases the corporate efficiency in the operation of the business, by a strong regime of ownership. The separate entity provides a centralized and specific management of IP assets throughout and helps exploitation of IP assets financially, in broader terms we can say it's like outsourcing your IP management affairs to a subsidiary company, which will specifically deal with IP management and provide greater fruitful results²¹. Secondly by assigning the intangible assets to the IP Holding Company the appointment of its (IP Holding Company) Officers and Directors would insulate Officers and Directors of the Parent Co. from involvement in the prosecution of lawsuits involving the IP. Also the IP Holding is saved from expenditure due

17 Holding and Exploiting Intellectual Property available <http://www.kemplittle.com/OurEvents/EventsDownloads/Holding%20and%20Exploiting%20Intellectual%20Property.pdf>

18 Intellectual Property Holding Companies - Assignment and Licensing Issues Chris Bevitt www.shelstonip.com/news_story.asp?m=1&y=2007&nsid=55

19 Intellectual Property Holding Companies: Tax Panacea or IP Mistake? by paul dau, paul devinsky & justin hill (McDermott will & emery llp) available at <http://www.mwe.com/info/pubs/gipamr0108>

20 Intellectual Property Holding Companies: A Strategic Analysis- By George C. Lewis, J.D., P.E. of Merchant & Gould and Joseph R. Enzor, J.D., LL.M. of Enzor Law G available at <http://www.iptoday.com/articles/2009-5-lewis.asp>

21 Intellectual Property Umbrella- Benefits of a IP holding Company available <http://ipumbrella.blogspot.in/>

to claims of the parent company's creditors, and the parent's insolvency. It might also protect the IP from hostile takeovers of the parent company, which could mean that in case the Parent company goes bankrupt the owner still has an opportunity to re-establish his company through the IP-Holding company²².

Placing IP in a separate holding company may also ease objectifying and determining value of the IP assets, separate from the operations and goodwill of the parent. This may be of particular importance for obtaining financing and eventually selling the IP to a third party. Take McDonald's Corporation as an example. It owns a number of famous Trade Marks, design rights, copyright and know-how, which it utilises in its own outlets and licenses to its franchisees. This gives the company at least three sources of income: by operating as a restaurateur; by supplying products to its owned and licensed restaurants; and by licensing rights to franchise operations²³.

The Corporate Structure

An IP holding company is established by exchanging a parent company's intellectual property assets for stock in a newly-formed subsidiary corporation, which can be incorporated in certain states having favorable state tax laws. The exchange of the stock in the subsidiary corporation for the contribution of the intellectual property is a non recognition transfer. At the same time the assets are transferred, the parties execute licensing agreements, with the parent agreeing to pay a royalty to the subsidiary for the right to use the intellectual property. The royalty

payments subsequently paid in compliance with the terms of the license by the parent are an expense to the parent, and therefore not included in the net-taxable income of the parent. By choosing a state that excludes royalty income from taxation as the state of incorporation for the IP holding company, the IP holding company's income from the royalty payments is also untaxed.²⁴ The net result is a reduction in the total tax obligation of the corporate enterprise. A lot of multinational mega corporations use this structure and then have the IP holders located in very low tax rate countries because the income paid to it by the operating companies, which may be in high tax rate areas, will be charged a lower rate. This is how Google had gotten its tax rate down to 2% or 3% in some jurisdictions by using companies in the Cayman Islands and Ireland. Dunkin Donuts charged each location \$100,000 per year to use the name, shoving all of that income in the DD IP Holder LLC subsidiary.

The parent corporation may also be allowed to deduct the dividends it receives from the subsidiary from its income. In addition, the parent might borrow from the subsidiary and gain a tax deduction for the interest payment on the parent's state tax return, without any effect on the Central tax obligation of the enterprise as a whole. If there are no sales by the holding company or royalties from the licensee then the holding company has no claim for damages in infringement action (account of profits and injunction may be available). The owner cannot recover damages suffered by the licensee. This applies to patents, designs, copyright and Trade Marks.²⁵

22 IP Holding Companies – Why You Need On <http://tacticalip.com/2010/04/14/ip-holding-companies-why-you-need-one/>

23 Intellectual Property: Using an Offshore Company Available at <http://www.isla-offshore.com/going-offshore/intellectual-property-and-offshore-companies>

24 Control of trademarks by the Intellectual Property holding company by Pamela S. Chestek Available http://ipmall.org/hosted_resources/IDEA/1.Chestek01.pdf

25 http://www.shelstonip.com/news_story.asp?m=1&y=2007&nsid=55

However, as the result of *Poly-America, L.P. v. GSE Lining Technology, Inc.*²⁶, this two- entity protection strategy now has to be balanced against important restrictions placed upon the IPHC. Essentially, what this ruling holds is that because the IPHC is the sole owner of the patents, the core company (which is merely a licensee, and almost always a non-exclusive licensee) has no standing to sue for its lost revenues or to ask a court to issue an injunction to stop a patent infringer. Only the IPHC has standing, and, largely, its only standing is to sue for what it has or will lose, which is only its licensing revenue. The result of this can be particularly unsatisfactory if the serious revenue losses, due to infringement, derive predominantly from the product sales of the core company, rather than from licensing royalties of the IPHC.²⁷ Hence it is always advisable to make one subsidiary a exclusive licensee with a power to sublicense, thus protecting all the rights between the holding company and the subsidiary or the parent company.

Off- Shoring IP

Intellectual property, like computer software, technical knowledge, patents, Trade Marks or copyrights, can be held in a jurisdiction with a lower or zero worldwide income tax rates²⁸. You can incorporate an offshore company, then transfer it the title to intellectual property with the right to sub-license and further exploit it in other countries. This offshore intellectual property (IP) holding company will receive franchise fees and royalty payments from the franchisees

or licensees, including from the associated companies, and accumulate income in a low-tax area.²⁹

Royalty payments are often subject to withholding tax in the country of origin. And most probably will be taxed again in the country of domicile. To mitigate double taxation it is recommended to incorporate an IP holding company in a country with a substantial double tax treaty network, like Cyprus, Gibraltar, Ireland, Luxembourg, Malta, The Netherlands Antilles and some others. By including more offshore entities in the scheme, to merely separate IP holding and royalty collection processes, it is possible to bring the effective tax rate nearly to zero³⁰.

The 2009 relocation by McDonalds of its European head office to Geneva was reportedly motivated by the desire to take advantage of Switzerland's relatively beneficial tax regime for profits derived from IP. The pertinent question for a company such as McDonald's is where that profit should be taken and thus accounted for. Provided the profit can be kept in the location where rights ownership resides and provided the royalty stream can be remitted without deduction of tax at source, the best location is clearly the jurisdiction which taxes the income at the lowest rate without adding any other material disadvantages.³¹

McDonalds joins a growing list of companies including Procter & Gamble, Colgate - Palmolive, Google and Yahoo! that have moved the management and

26 383 F.3d 1303, 1310-12 (Fed. Cir. 2004).

27 <http://www.iptoday.com/articles/2009-5-lewis.asp>

28 Intellectual Property: Using an Offshore Company Available at <http://www.isla-offshore.com/going-offshore/intellectual-property-and-offshore-companies>

29 How a holding company works available at www.joshuakennon.com

30 Intellectual Property Holding Companies: A Strategic Analysis- George C. Lewis, J.D., P.E. of Merchant & Gould and Joseph R. Enzor, J.D., LL.M. of Enzor Law G available at <http://www.iptoday.com/articles/2009-5-lewis.asp>

31 Off shoring your IP holdings Available at http://www.cpaglobal.com/newlegalreview/4392/offshoring_your_ip_holdings

exploitation of IP to jurisdictions such as Switzerland, Holland and Ireland for tax reasons. An important consideration before transferring any IP to an offshore subsidiary is the level of protection afforded to IP assets by the offshore jurisdictions.³² The rewards from offshoring IP are significant; a reduction in the tax rate from 28% or more to 12.5% or less is significant. By using true tax havens to hold IP, the effective tax rate can be reduced further, even to near nil. But pitfalls also exist, which is why the transfer of IP assets needs to be carefully planned with specialist advice.³³

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Ballarpur Industries, Crompton Greaves, NIIT, HCL Technologies, ONGC Videsh, Jubliant Organosys, Infosys, Wipro, Satyam and IGate are some of the Indian Companies that have setup or are in the process of setting up operations in Netherlands.³⁴

It is not only the popular jurisdictions such as Switzerland, Mauritius, Jersey, etc that are appropriate for the IP holding companies, but other jurisdictions are beginning to compete in order to attract

IP holding companies. For example, the United Kingdom has recently announced that as from April 2013 it is introducing "Patent Box" legislation in terms of which there will ultimately be a 10% tax rate for companies generating profits from patents. It is the stated objective of the UK Government to establish the United Kingdom as the most competitive corporate tax regime in the G20 countries for patent and technology-rich companies. It will be noted that it is not a broad incentive for all classes of intellectual property but is currently restricted to patents and does not include Trade Marks and copyright.³⁵

Conclusion

The above discussion clearly enumerates that creating a separate entity solely for the purpose of owning you IP is the quickest, easiest and cheapest way to insure your technology/artistic work/goodwill associated with the business. Though the most significant impetus to form a IPHC is tax consideration, IPHC as a legal repositories of IP assets is also tasked with protecting managing and exploiting the IP. While the world's largest corporations have always had the resources and the global reach to restructure their IP in this manner, the emergence of IP as the central asset of many companies means that a global approach to holding and exploiting IP is something that companies with global ambitions can no longer afford to ignore irrespective of size and stage of development.

32 Strategic IP off shoring through outsourcing Available at http://www.newmorningip.com/wp-content/uploads/2012/06/INTIPSA_Tips_-_Strategic_intellectual_property_offshoring_through_outsourcing.pdf

33 Available at <http://www.thehindubusinessline.com/todays-paper/tp-opinion/tax-structuring-and-planning-via-the-netherlands-can-be-worthwhile/article1751507.ece>

34 Intellectual Property Umbrella- Benefits of a IP holding Company available <http://ipumbrella.blogspot>

35 Intellectual Property holding companies and r7d tax credit By Chris Bull & Peter Dachs available at http://www.ens.co.za/news/news_article.aspx?iID=653&iType=4