August 27, 2010

SUPREME COURT RULING ON BUSINESS DUPLICATION HAS IPR REPERCUSSIONS

Most companies are well aware of the risks of infringement of their intellectual property rights (IPR) by third parties or street vendors. In addition to these external threats, it is important for firms to recognise that their IPR may be stolen, hijacked or infringed upon by former employees or business partners.

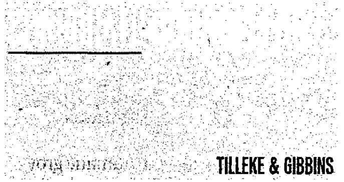
For many businesses, in the course of employment, selected employees must be able to access or have knowledge of the employer's IPR in order to perform their duties or provide the products or services of the employer to the customers. Therefore, employers must implement suitable measures to secure their IPR and ensure their employees recognise and treat these valuable assets appropriately during the course of employment and even after employment ceases.

Many companies have regretted trusting their employees and even business partners with their IPR. When a business becomes successful, it runs the risk of some employees or business partners believing they could set up a similar business and apply key insights gleaned from the company's IPR to attract the same customers and gain greater profits and market share. And when the fortunes of a business decline, a company may have to watch out for employees or business partners deciding to jump ship and setting out to use the IPR in what they hope will be a more effective fashion.

On Aug 23, the Supreme Court rendered an important decision (Case No. 864/2553) regarding this type of business duplication.

In the judgement, the Supreme Court sought to settle whether the plaintiff or the defendant had a better right to trademarks created when two companies worked together in developing a business unit.

As a result of a significant investment in a product development project, a Thai pharmaceutical distribution company



(the defendant) planned to launch a new product in its renal unit, which it hoped would increase revenue. The products were produced by a local pharmaceutical manufacturing company (the plaintiff), while the defendant conducted the sales and marketing of the products, sold under the names Bazic and Freno (later changed to Abzic and Pheno). Unfortunately, no one applied for the registration of these marks during the product development process.

The business unit manager in the defendant's company, who was involved in developing the product, was the wife of the plaintiff's managing director. After several years, the plaintiff led a spinoff company that aimed to handle sales and distribution on its own. The defendant's business unit manager resigned from the defendant and joined the plaintiff. The plaintiff started manufacturing and selling the product under the same name right away, claimed that the trademarks belonged to them and filed a lawsuit against the defendant — its former employer and business partner — seeking to revoke the defendant's trademark applications.

Based on the evidence presented by the defendant during the trial, particularly documents and evidence created during the process of developing the new product (including research and several minutes of meetings), the Supreme Court determined that the defendant had a genuine intention to operate and develop the business, while the plaintiff failed to prove that it had ever produced or distributed the products under the disputed brands prior to initiating the business with the defendant.

In addition, the defendant was able to prove that it had invested time and money for protection of the marks while the marks were in use. As the plaintiff's evidence that it was the creator of the trademarks was unconvincing, the Supreme Court ruled that the defendant created the trademarks and enjoyed better rights to them. Hence, the case was dismissed and the defendant was allowed to maintain its trademark registrations.

To avoid scenarios similar to the above, particularly disputes and litigation with former employees or business partners, companies that are starting a new business should proactively conduct intellectual property due diligence to identify the IPR created, acquired and owned by the corporation and proceed with registration of the IPR with the relevant authorities. With a list of these rights in hand, the company can then decide which employees or business partners should have access to the IPR.

Employers need to prepare appropriate confidentiality, non-disclosure and non-competition agreements to be signed by employees and business partners. These agreements will educate employees and business partners on what the company IPR is, and how it should be treated during and after the course of employment or joint venture; as well as legally obligate them to the terms and conditions once they sign the agreements. These agreements can also be very useful in proving the actual relationship between the companies and thus will be a useful reference in clearly identifying the rights of the concerned parties to the IPR.

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