

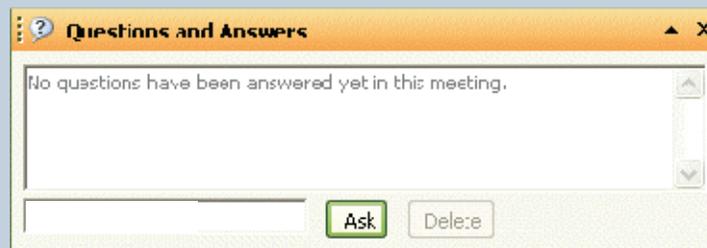
Doing Business in China – Strategic Considerations and Effective Approaches to IP Protection

The Web Conference Series for
Corporate Counsel

October 22, 2007

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- More information available at Foley.com/webconference
- Today's summary in December *InsideCounsel*
- Advance copy for today's participants

Today's Panelists

Catherine Sun

Partner, Foley & Lardner LLP

- Member of firm's Intellectual Property Litigation Practice and chair of the firm's Asia Practice
- Member of firm's Life Sciences, Entertainment & Media, Automotive and International Business Industry Teams
- Works with firm's clients on IP strategy, counseling and litigation, cross border M&A related IP, international technology transfer, licensing and portfolio management



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Today's Panelists

Zhu (Julie) Lee

Partner, Foley & Lardner LLP

- Member of firm's Business Law group, helping clients with general legal and business aspects of transactions involving China
- Advises on international contracts, foreign direct investments, mergers and acquisitions, IP protection, cross-border technology transfer, tax, and dispute resolution
- Implements strategies to establish offshore corporate ownership structures for investments in China



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Today's Panelists

Bruce Schelkopf

Chief Counsel, Global Intellectual Property, for Cummins Inc.
President & CEO, Cummins Intellectual Property Inc.

- Responsible for global IP development, strategy and execution worldwide for Cummins, including prosecution, litigation and enforcement
- Responsible for legal matters of Asia operations including JVs
- Teaching affiliations with Indiana, Pennsylvania and North Carolina universities in engineering, business and law graduate schools



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Today's Moderator

Robert Vosper

Editor, *InsideCounsel*

- *InsideCounsel* is the leading publication exclusively for general counsel and other in-house counsel
- Editorial mission – be the business and management tool for the corporate legal department
- Dedicated to the exploration of the relationship between in-house counsel and the law firms that serve them



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Three Points to Make

- Acquire IP assets in China;
- Conduct your due diligence carefully;
- Prepare to enforce and do enforce.

Myths about Chinese Legal System

- Case law is binding;
- There is discovery;
- It takes millions of dollars to litigate in China;
- Judges are selected from experienced legal practitioners;
- Litigation is lengthy;
- Arbitration is cheaper than litigation;
- Foreign companies are treated unfairly;
- Lost in translation.

Issue No.1

My former distributor is copying my product in China, but I have not filed patents covering the product, and my Chinese trademark application is pending. The worst I have heard is that this former distributor filed a patent application based on my product in China.

Live Meeting Poll

Polling Question #1

Do you normally have a supplier or distributor agreement with your supplier or distributor in China?

- Yes
- No

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Issue No.2

My former licensee has continued to use my IP after the license expired.

Issue No.3

My licensee/distributor in China now makes extra products by its connections bearing my trademark, and selling at a price that is 40% lower with poor quality.

Issue No. 4

Normally my US parent registers IP in China, then licenses to my China operations to use the IP. I was told it may not be an efficient plan.

Issue No. 5

My company is intending to buy a technology company in China, but the due diligence reveals that the target has not kept good records on IP. My business people want to go ahead but my legal department says no.

Issue No. 6

I am working with a State Owned Enterprise (SOE) in China on a JV. The Chinese government requires me to transfer my most up to date technology to the Chinese party, also share my future improvements, and one thing I don't feel comfortable is that the Chinese party will own my technologies at the end of JV.

Issue No. 7

I want to do R&D in China as there are so many universities and research institutes full of cheap and talented students, professors and researchers. But I am not sure if I can hire them as an independent contractor and whether I can obtain unencumbered ownership of the research result.

Issue No. 8

My people in China reported that they suspect that some local companies may infringe our IP after they have done the comparison. My US counsel tells me to send a cease desist letter right away.

Live Meeting Poll

Polling Question #2

Are you able to have a non-compete agreement with your China based employees?

- Yes
- No

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Issue No. 9

My top engineers in China recently quit and started a competing business.

Issue No. 10

I know a big SOE in China is infringing my IP, how to approach it for a license?

Summary

- Acquire IP assets in China when there is a strategic need;
- Conduct a careful due diligence when you are about to distribute, license, form a company and acquire a target in China;
- Enforcement is always centralized in order for your China IP strategy to work.

IP Protection Mechanisms in Commercial Transactions

- Typical Vehicles for Investing in China
 - Non-corporate form: contractual arrangement
 - Establishing a foreign-invested enterprise (“FIE”) such as a joint venture or a wholly foreign-owned enterprise

IP Protection in Contractual Arrangement

- Direct Sales Agreement /Distributorship Agreement
 - Registration protection
 - Anti-counterfeiting measures
 - Confidentiality/non-compete

IP Protection in Contractual Arrangement

- Supply Agreement
 - Control the manufacturing process
 - Right to monitor use of IP rights
 - Limitation on use of IP rights
 - Confidentiality/non-compete

IP Protection in Contractual Arrangement

- License Agreement
 - Technology import catalog and technology export catalog
 - Improvement to licensed technology
 - Mandatory provisions of Chinese law
 - Confidentiality/non-compete

Protecting IP when establishing an FIE

- Confidentiality
- IP due diligence
- Different options of transferring IP rights to an FIE: capital contribution or license
- Special considerations for employee non-compete
- Establishing policies and procedures to protect IP rights

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Cummins Inc. in China



- In China for over 30 years
- Largest foreign investor in China's diesel engine industry
- 10 JVs and wholly owned enterprises in China producing engines, turbos, filters, alternators and gensets.



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East Asia Distribution Network

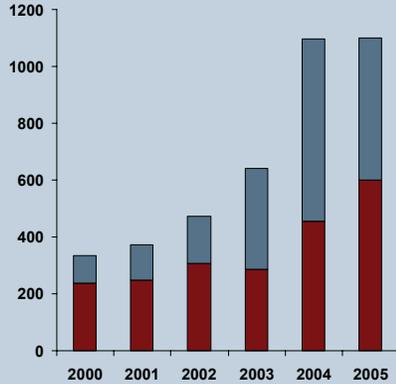


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Consolidated and Unconsolidated Net Sales

Growing Economy

China's economy has grown at nearly 9% for 25 consecutive years and the forecast is to continue to grow at 8%. China's interstate highway system, for example, is expanding rapidly. By 2010, China expects to have 85,000 kilometers, compared to the US today 89,000.

Established Business

In China we have 10 businesses. We've been there since 1975. We're the second largest diesel engine supplier in China with annual shipments of over 150,000 with an installed population greater than 850,000. Our goal is \$3B in sales by 2010

Beyond US Capacity

We estimate that in 2010 China will have a heavy-duty market size over 600,000, compared to the peak in North America in late 1990's at 330,000.

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Developing Relations

- Heavy Emphasis on Developing Right Model for "Doing Business" and "Doing the Right Business"
 - State-Owned Enterprises
 - Private Companies
 - Developing Shared Synergies
 - Provincial Interest and Commitment
- Model for Business is Tied to On-Going Operation and Success
 - Ownership Interests & Structure
 - Production & Operational Management
 - Participation & Employee Obligations
 - Terms Negotiation
 - Arbitration & Dispute Resolution



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Partner/Business Interests

- Identify market of interest and shared value to parties of interest
- Pre-determine value and interest of IP and technological know-how to be offered, licensed and shared
 - New, old, developed, developing
- Assess potential partners and business interests in view of FCPA, EAR, ITAR, SOx, etc.
- Determine impact of possible loss of control of contributed IP/know-how
- Re-affirm/initiate protection strategies for all IP forms before first discussions in all appropriate jurisdictions

Negotiations

- Assessment of Sharing Control of Operations
- Contributing IP to JVs
 - Terms & Scope of Contribution
 - Limited, Specific, Licensed, etc.
 - Future Developed IP
 - Trademark and Use Rights
 - Enforcement mechanisms encouraged by business scope and profit incentives

Negotiations

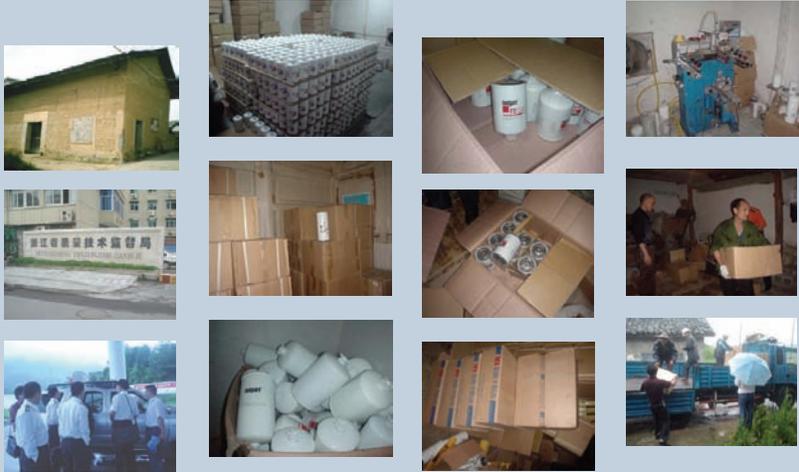
- Execution of Terms via Operations
 - Production Segmented
 - Technical Centers controlled
 - Contributed Best Efforts and Knowledge
 - Enforcement Resultant
- Exit Strategy / Options
 - US Laws, China Laws, etc.

Follow-Through

- Follow the contract and update new processes and efforts via amendment
- Keep current on U.S. and China laws as well as possible impacts to US-China business interests
- Maintain IP protection for background IP and jointly developed IP
- Actively and publicly enforce ownership rights
 - Seek to share enforcement with other in-country companies
- Take advantage of IP protections and patent filing strategies at every turn

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Successes in China



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