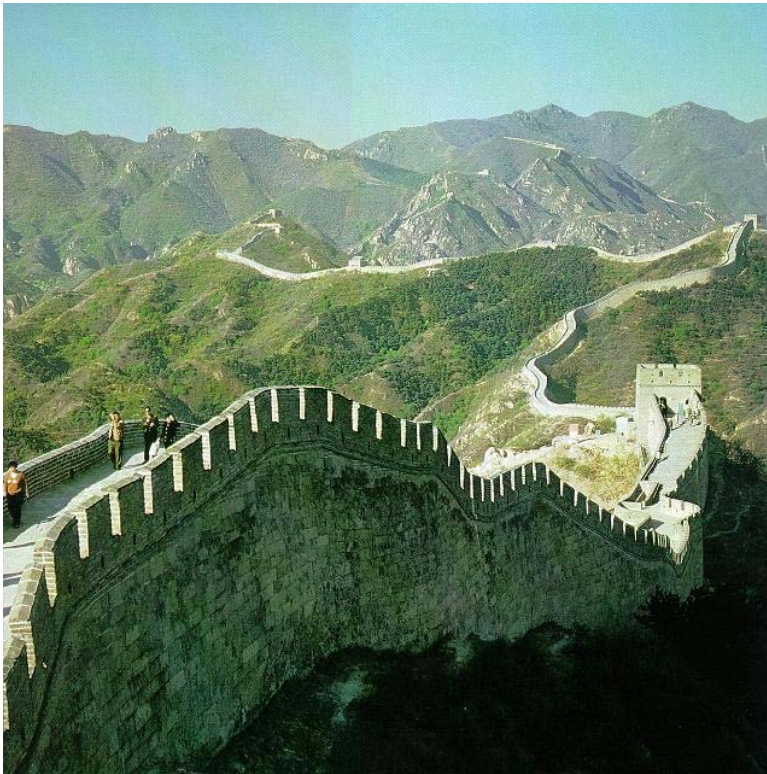


Protecting Intellectual Property in China

December 10, 2008



- ***A123 Systems***
- ***Kai Liao***
- ***Steve Wu***

A123 Systems

to a new generation of energy storage solutions enabled by nanotechnology



**A123
SYSTEMS**

power. safety. life.™

Transportation✦



Electric Grid✦



Portable Power✦



Why Do Business in China?

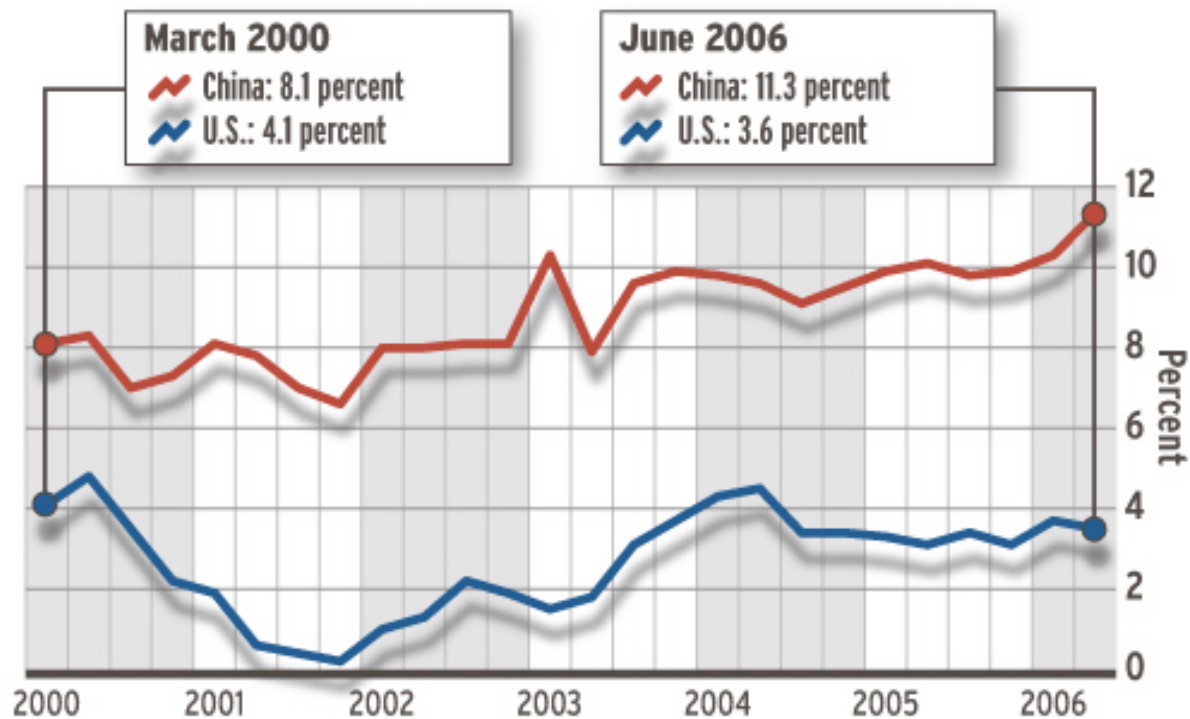
- Growing economy
- Land of opportunity
- Profitable venture

Growing Economy

CHINA'S GROWTH

China's economic growth is outpacing that of the United States and other developed nations.

Growth in gross domestic product, compared with the year-ago quarter



Source: Bloomberg News

The News & Observer

Land of Opportunity



Larger Profits and Margins



IP Protection in China

- Intellectual property theft is one of the most vexing problems for multinational firms doing business in China.
- Two-thirds of all counterfeit goods entering the U.S. originate in China.
- Penalties imposed by Chinese government do not deter the violations.

IP Landscape in China

- IP Registration Process
 - China does not recognize foreign patents.
 - Must use an authorized agent for all local filings
 - Chinese law does not consider business model as IP
- Culture
 - IP is a new concept to many Chinese
 - Copying someone's work is not perceived as theft for many Chinese
 - Many Chinese believe that Western companies are overly sensitive about IP
- Legal System
 - IP law is often not as vigorously enforced as in Western countries
 - Financial penalty is very low



Legal Basics of Tackling the IP Problem

- Apply for patent, copyrights and trademarks in all significant markets.
- Ensure that organizations, contractors and business partners are aware of IP measures.
- Determine which IP assets should be present in China
- Tackle IP issues head-on (P&G's zero-tolerance policy)

Proctor and Gamble

- Counterfeit products were appearing in China
- Did not act, fearing negative publicity
- Loss of \$150 million/year
- Initiated zero-tolerance policy
- Designed security features that distinguished genuine from fake articles
- Conclusion: Must integrate IP protection with business strategies



Protect via Business Strategy

- Business Strategy
 - Control the production process
 - Focus on human resources
 - Analyze business environment
 - Guanxi (personal relationship)



Control the production process

- Compartmentalize the production process and design products, and the equipment that produces them.
- Keep vital designs or latest-generation technologies in their home countries (Pepsi)

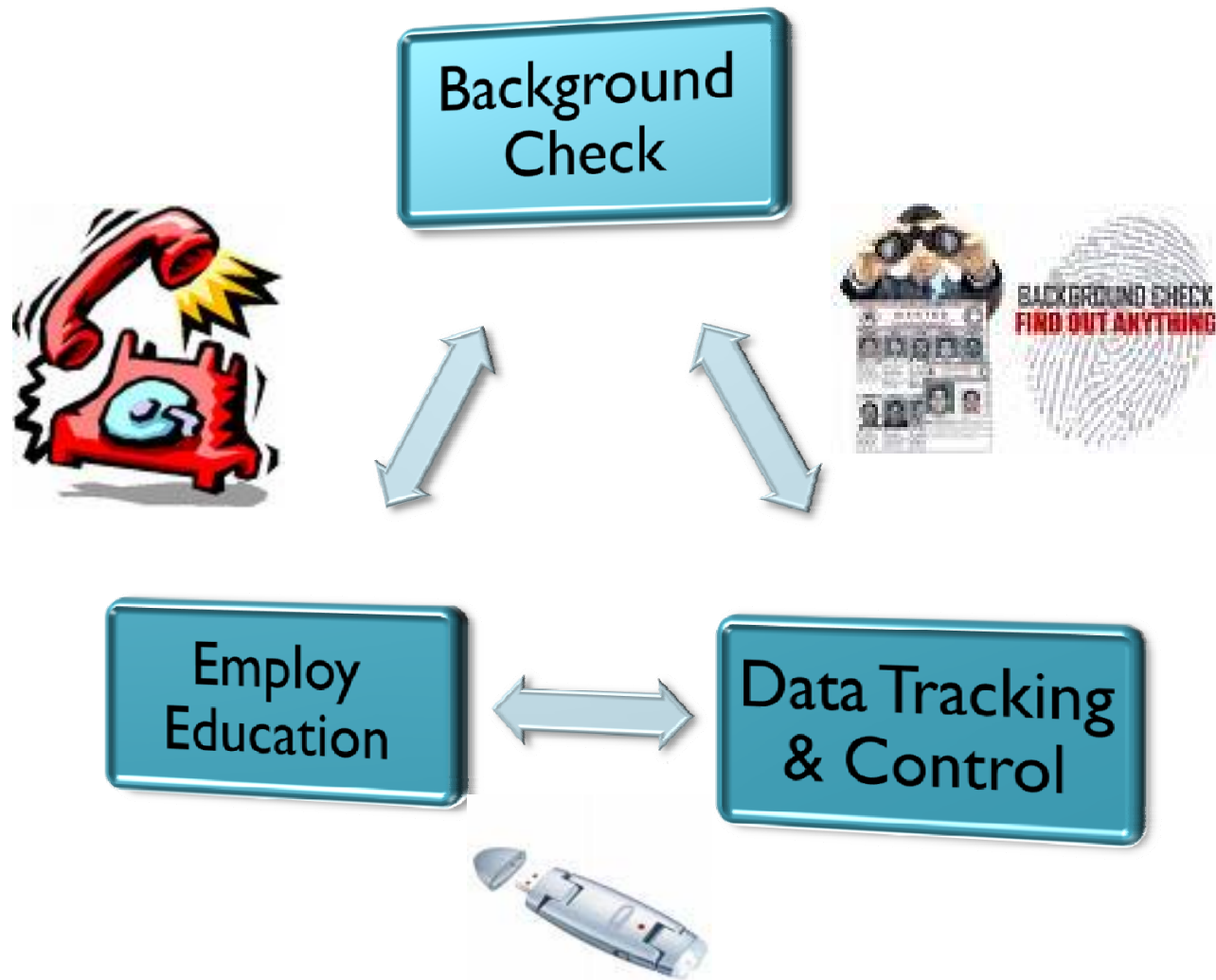


VS.



- Classify information according to IP sensitivity, laying out which employees have what level of access to the information

Focus on Human Resources



Analyze Business Environment

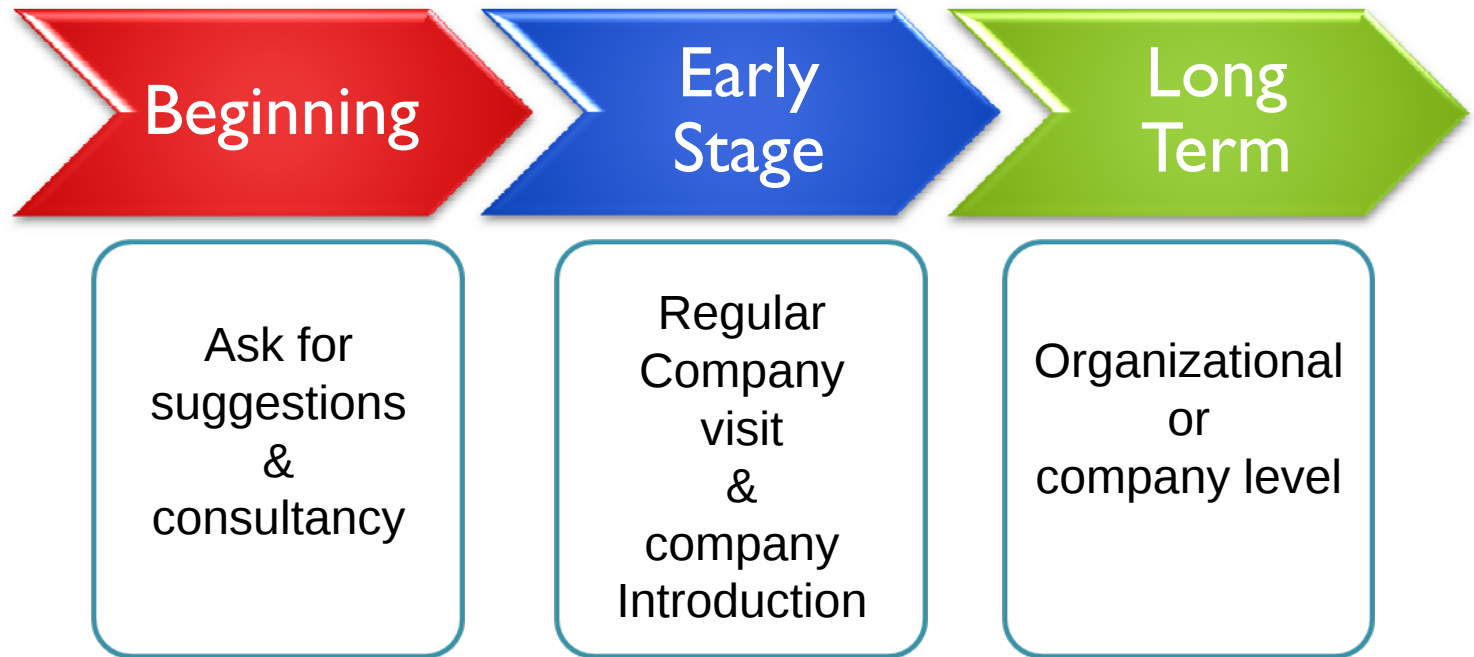
- Identify different groups of consumers (GM)
- Identify smartest possible investments (GE's “smart bomb” technique)
- First mover advantage?

A Tale of Two Joint Ventures

- GE-Jiabao
 - Conflicting views on how to approach JV
 - Management decisions were not performed in unison
 - Improper analysis of consumer tastes and preferences
- GE-Shanghai Communications and Electrical Appliances Commercial Group
 - Effective communication among parties
 - Shanghai group understood consumer territory
 - More experts

Guanxi (Relationship)

With authorities or other companies

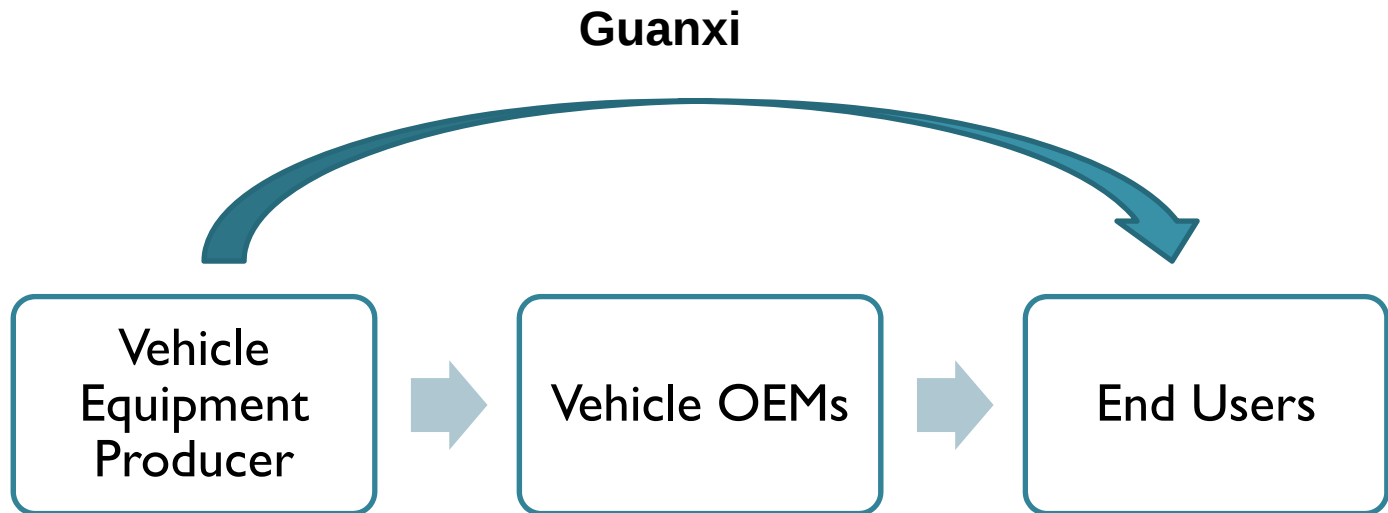


NIKE

- Support Chinese National basketball teams
- Support First Beijing International Marathon

Guanxi (relationship)

- Get used to the environment
-- “end user campaign”



OEM: Original Equipment Producer

Closing Thoughts

- Litigation is no substitute for business strategies
- Secure IP protection before a major investment and know what to protect
- Develop strong human resources department and develop trust with management partners
- Vigorously enforce IP regulations, work with government and local authorities
- Be prudent about production, identify most sensitive assets, and assets most likely to benefit from low-cost production
- IP arbitration should not hinder business



Thank you for listening!