

INDEX

References given are to page numbers.

ACCOUNTING FOR INTELLECTUAL PROPERTY ASSET TRANSACTIONS

- acquisition of intangible assets, 199
- assessing value of intellectual property assets, 202-203
- intangible assets in business combinations, *see* INTANGIBLE ASSETS IN BUSINESS COMBINATIONS
- intellectual property as intangible assets, 184-186
 - • initial recognition of intangible asset, 184-185
 - • subsequent measurement of intangible asset, 185-186
- internally-generated intangible assets, 186-187
- introduction, 183
- subsequent measurement, 200-202
 - • cash-generating units, 200
 - • impairment testing, 200-201
 - • value in use (VIU) vs. fair value less costs of disposal (FVLCOD), 201-202

ADVANCED DUE DILIGENCE

See also DUE DILIGENCE, INTELLECTUAL PROPERTY

- clearance search, 85
- enforcement assessment, 85
- freedom to operate assessment, 85
- generally, 84
- patentability assessment, 86
- state of the art searches, 85
- validity assessment, 85-86

BUSINESS ASSESSMENT OF INNOVATION FOR PROTECTION

See also COMMERCIALIZING INTELLECTUAL ASSETS

- change in environment or macro-economics, 38
- competition, 40
- existing IP protection, 39
- exit strategy, 40-41
- financial projections, 40
- how problem was solved in past, 38
- innovation, 39
- marketing and sales strategy, 39
- need for funds, 40
- overall description, 38

BUSINESS ASSESSMENT OF INNOVATION FOR PROTECTION —

continued

- partners, 40
- problem to solve, 38
- revenue model, 40
- successes, 39
- target market, 38-39
- team, 40

COMMERCIAL VALUE AND PATENT VALIDITY

- ambiguity, 295-296
- anticipation, 290-291
- claims broader than invention made or disclosed, 301-303
- double patenting, 299-301
- *Gillette* defence, 299
- insufficiency, 293-295
- introduction, 287-289
- obviousness, 291-293
- patent claims, 289-290
- selection patents, 303-304
- special considerations with respect to pharmaceuticals and biologics, 304-306
 - • Patented Medicines (Notice of Compliance) Regulations, 304-306
 - • Patented Medicines Prices Review Board, 306
- strength of patent, 307
- utility and sound prediction, 297-298

COMMERCIALIZATION ORGANIZATION

See also COMMERCIALIZING INTELLECTUAL ASSETS

- general, 42-44
- rationale for commercialization organizations, 44
- steps of working with commercialization organization, 45-48
 - • assessment, 45-46
 - • communications, 48
 - • ending relationship, 48
 - • engagement, 45
 - • marketing, 46
 - • preliminary education, 45
 - • protection, 46
 - • start up, 47-48

COMMERCIALIZING INTELLECTUAL ASSETS

- business assessment of innovation for protection, *see* BUSINESS ASSESSMENT OF INNOVATION FOR PROTECTION

COMMERCIALIZING INTELLECTUAL ASSETS — *continued*

- commercialization organization, *see* COMMERCIALIZATION ORGANIZATION
- confidentiality or non-disclosure arrangements, *see* CONFIDENTIALITY OR NON-DISCLOSURE ARRANGEMENTS
- introduction, 17-18
 - • commercialization explained, 18
 - • consequences of commercialization, 18
- invention disclosure program, 41
- key elements of commercialization process, 18-26
 - • commercialization, 25-26
 - • development, 22-24
 - • discovery, 21-22
 - • interactive assessment, 19-21
 - • pre-commercialization, 24-25
- legal assessment of innovation for protection, *see* LEGAL ASSESSMENT OF INNOVATION FOR PROTECTION
- proto-type development, 41-42

CONFIDENTIALITY OR NON-DISCLOSURE ARRANGEMENTS

See also COMMERCIALIZING INTELLECTUAL ASSETS

- common exclusions, 32
- confidentiality is not privacy, 34
- damages limitations, 34
- definition of information, 28
- duration of obligations, 31
- form of agreement, 27
- generally, 26-27
- government contracts, 262-263
- no implied license, 33
- non-disclosure obligation and restrictions on use, 29-30
- parties, 27-28
- permitted disclosure to others, 30-31
- purpose of disclosure, 28
- requirements of formality, 29
- return of information, 33
- scope of duty, 30
- unusual terms, 33-34
- universities, 237-238, 240-241

DIRECT FUNDING

See also PUBLIC POLICY OPTIONS TO INCENT INNOVATION

- early-stage funding programs, 278-280
 - • Business Innovation Access Program, 279-280
 - • Canada Accelerator and Incubator Program, 278-279

DIRECT FUNDING — *continued*

- generally, 278
- grants for filing, 280-281
 - • China – Article 16 reward and remuneration, 281
 - • Hong Kong – Patent Application Grant, 280-281
 - • Québec – First Patent program, 280

DUE DILIGENCE, INTELLECTUAL PROPERTY

- advanced due diligence, *see* **ADVANCED DUE DILIGENCE**
- external searches, *see* **EXTERNAL SEARCHES**
- internal due diligence, *see* **INTERNAL DUE DILIGENCE**
- introduction, 65-68
 - • intellectual property audit, 66
 - • transactional intellectual property due diligence, 66-68
- reporting, 86
- scope of due diligence effort, 68-70

EXPENSES

See also **TAXATION OF INTELLECTUAL PROPERTY**

TRANSACTIONS

- capital expenses, 172-174
 - • capital cost allowance, 173-174
 - • eligible capital expenditures, 174
- current expenses, 172
- generally, 172
- research and development expenses, 174-177
 - • federal investment tax credits, 176-177
 - • provincial tax credits, 177
 - • scientific (SR&ED expenses), 175-176

EXTERNAL SEARCHES

See also **DUE DILIGENCE, INTELLECTUAL PROPERTY**

- additional factors affecting searching, 73-74
- defining where to search, 71-72
- generally, 70-71
- limiting scope of searching, 74-76
 - • entities, 75-76
 - • intellectual property offices, 75
 - • reporting scope, 76
 - • type of intellectual property, 74-75

INSOLVENCY, LICENSES

See also **LICENSING**

- insolvency generally, 106-107
- law reform in Canada, 108-110
- licensee's insolvency, 107

INSOLVENCY, LICENSES — *continued*

- licensor's insolvency, 107-108

INSURING AGAINST LITIGATION-BASED TRANSACTION RISK

- coverage for intellectual property infringement claims under non-IP policies, 213-217
 - • IP coverage under commercial general liability (CGL) policy, 213-217
- defense and indemnity agreements, 224-225
- duty to defend, 211-213
- information technology policies, 218
- introduction, 205-207
- IP coverage under directors and officers liability policies, 217-218
- IP-specific coverage, 218-224
 - • defence (liability) coverage, 220-221
 - • enforcement (pursuit) coverage, 221-222
 - • IP representations and warranties insurance, 224
 - • multi-peril coverage, 222-223
 - • wrap around policies, 223
- litigation risk, insuring against, 225
- structure and terminology of insurance policies, 207-211
 - • conditions, 211
 - • coverage or insuring agreement, 210-211
 - • declarations, 208-210
 - • endorsements, 211
 - • exclusions, 210

INTANGIBLE ASSETS, *see* ACCOUNTING FOR INTELLECTUAL PROPERTY ASSET TRANSACTIONS**INTANGIBLE ASSETS IN BUSINESS COMBINATIONS**

See also ACCOUNTING FOR INTELLECTUAL PROPERTY ASSET TRANSACTIONS

- assessing allocation between identifiable intangible assets and goodwill, 196-199
- fair value versus fair market value, 190-191
- goodwill versus intangible assets, 189-190
- market participant concept, 192-193
 - • measuring fair value using income approach, 192-193
 - • valuing “dormant” intangible assets, 193
- market participants, 191
- overview, 187-189
- rates of return and discount rate selection, 196
- tax amortization benefits, 196
- valuation of business enterprise versus valuation of identifiable intangible assets, 193-194

INTANGIBLE ASSETS IN BUSINESS COMBINATIONS — *continued*

- valuation of intangible assets, 194-195
 - • multi-period excess earnings method (MEEM), 194-195
 - • relief-from-royalty method, 195
- valuation techniques in financial reporting context, 191-192
 - • cost approach, 192
 - • income approach, 191
 - • market approach, 192

INTERNAL DUE DILIGENCE

See also DUE DILIGENCE, INTELLECTUAL PROPERTY

- generally, 76-77
- information disclosure request, 77-80
 - • identify material IP and registrations, 77
 - • intellectual property litigation, 78
 - • licenses, 78
 - • personal information privacy, 78-80
- intellectual property agreement review, 82-84
- internal intellectual property file review, 80-81
- interviews, 81-82
- limitations on internal assessment, 84

LEGAL ASSESSMENT OF INNOVATION FOR PROTECTION

See also COMMERCIALIZING INTELLECTUAL ASSETS

- copyright, 36
- generally, 34-35
- industrial design, 37
- patents, 35-36
- trade secrets, 37-38
- trademarks, 36-37

LICENSE AGREEMENTS, KEY ELEMENTS

See also LICENSING

- exclusivity, 92-93
- field of use, 93-94
- grant of license, 91-92
- subject matter, 93
- sublicense rights, 95
- term, 94
- territory, 94-95

LICENSE AGREEMENTS, UNIVERSITIES

See also UNIVERSITIES, ACQUIRING INTELLECTUAL PROPERTY RIGHTS FROM

- consideration, 245-246
- exclusivity, 246

LICENSE AGREEMENTS, UNIVERSITIES — *continued*

- generally, 242-243
- improvements, 246
- ownership, 243-244
- patent prosecution, 244-245
- specific terms and conditions of license agreement, 247-250
 - • additional research commitment/improvements, 249
 - • exclusive versus non-exclusive, 248
 - • milestones – performance obligations, 248
 - • minimum annual royalties, 249-250
 - • nature of grant of rights, 247
 - • representations and warranties, 247
 - • royalties/compensation alternatives, 249
 - • subsequent improvements, 247-248

LICENSING

- drafting licenses, 265-267
- indemnities, 104
- information disclosure request, 78
- insolvency, *see* INSOLVENCY, LICENSES
- key elements of license agreement, *see* LICENSE AGREEMENTS, KEY ELEMENTS
- license agreements must relate to specific IP rights, 90-91
- license explained, 87-88
- limitation of liability, 104-105
- parties to license, 88
- payment terms, *see* PAYMENT TERMS, LICENSES
- personal property, licenses as, 155
- representations and warranties, *see* REPRESENTATIONS AND WARRANTIES, LICENSES
- sale of licensed IP asset, 53
- strategic licensing, 100-102
- special cases, 110-114
 - • creative commons, 110-111
 - • freeware, shareware and open source, 111-114
- termination, *see* TERMINATION OF LICENSES
- why use license agreement, 88-90

PAYMENT TERMS, LICENSES

See also LICENSING

- milestone payments, 95-96
- minimum payments, 96
- royalties, *see* ROYALTIES
- rule of thumb, 99-100
- upfront payments, 95

PUBLIC POLICY OPTIONS TO INCENT INNOVATION

- changes to patent laws / examination procedures, 284-286
 - • green technology and accelerated patent examination programs, 284-286
- direct funding, *see* DIRECT FUNDING
- introduction, 269
- measuring results of public policy choices, 286
- second tier patent systems, *see* SECOND TIER PATENT SYSTEMS
- tax-based incentives, *see* TAX-BASED INCENTIVES

RECEIPTS

See also TAXATION OF INTELLECTUAL PROPERTY TRANSACTIONS

- generally, 169
- income versus capital, 170-171
- payments based on production or use, 171-172

REPRESENTATIONS AND WARRANTIES, LICENSES

See also LICENSING

- generally, 102
- maintenance of intellectual property, 104
- non-infringement, 102-103
- performance, 103-104
- title, 102

ROYALTIES

See also PAYMENT TERMS, LICENSES

- audit rights, 98-99
- generally, 96
- license agreements, universities, 249-250
- payment of royalties and similar amounts to non-residents, 178-180
- permitted deductions, 97
- report, 98
- reporting period, 98
- royalty base, 97
- royalty rate, 97-98
- royalty sale, 54-55

SECOND TIER PATENT SYSTEMS

See also PUBLIC POLICY OPTIONS TO INCENT INNOVATION

- Australian innovation patents, 283
- Chinese utility models, 283
- generally, 282
- German utility models, 282

SECOND TIER PATENT SYSTEMS — *continued*

- Japanese utility models, 282-283
- pros and cons of second tier patent systems, 284

SECURITY IN INTELLECTUAL PROPERTY ASSETS, TAKING AND ENFORCING

- *Bank Act* security, 161
- commitment letters, 147-149
 - • legal opinion, 149
- creation of security interests, *see* SECURITY INTERESTS, CREATION OF
- enforcing security in bankruptcy, 164-165
- issues relating to licenses in default and bankruptcy proceedings, 166-167
- introduction, 143
- lenders' criteria for acceptance of intangible assets as collateral, 143-147
 - • identifiability, 144
 - • liquidity, 147
 - • robustness, 146
 - • title, 144-146
 - • valuability, 147
- lender's remedies under hypothec (Québec), 163-164
- lender's remedies under security agreement, 162-163
 - • receivers, 162-163
 - • receiver's ability to pass good title, 163
- loan agreements, 147-151
 - • conditions precedent, 148
 - • legal opinion, 149
 - • representations, warranties and covenants in loan agreement, 149-151
- necessity of registering under federal statutes, *see* SECURITY INTEREST UNDER FEDERAL STATUTES, REGISTERING
- risks, 167-168
- term sheets, 147

SECURITY INTERESTS, CREATION OF

See also SECURITY IN INTELLECTUAL PROPERTY ASSETS, TAKING AND ENFORCING

- generally, 151
- multiple jurisdictions and multiple registrations, 156-157
- provincial *Personal Property Security Acts*, 151-155
 - • after-acquired property, 155
 - • describing collateral, 154
 - • licenses as personal property, 155
 - • scope of security interest, 153-154

SECURITY INTERESTS, CREATION OF — *continued*

- security interests in province of Québec, 156

**SECURITY INTERESTS UNDER FEDERAL STATUTES,
REGISTERING**

See also SECURITY IN INTELLECTUAL PROPERTY ASSETS,
TAKING AND ENFORCING

- *Copyright Act*, 159-160
- *Industrial Design Act*, 160
- *Integrated Circuit Topography Act*, 160
- necessity of, 157-158
- *Patent Act*, 159
- *Plant Breeders' Rights Act*, 161
- *Trade-Marks Act*, 160

**STRATEGIC AND REVENUE-GENERATING ASPECTS OF
INTELLECTUAL PROPERTY ASSETS**

- growth in registration of intellectual property rights, 6-7
- issues arising in intellectual property transactions, 14-15
- intellectual property rights explained, 2-6
- introduction, 1
- sources of revenue, intellectual property rights as, 7-10
- strategic utility of intellectual property rights, *see* STRATEGIC UTILITY OF INTELLECTUAL PROPERTY RIGHTS

STRATEGIC UTILITY OF INTELLECTUAL PROPERTY RIGHTS

See also STRATEGIC AND REVENUE-GENERATING ASPECTS
OF INTELLECTUAL PROPERTY ASSETS

- alliance building, 12
- attracting investment, 12-13
- competitive intelligence, 12
- creating revenue-generating opportunities, 13
- defensive, 12
- generally, 11-13
- harassing competitors and limiting market entrants, 13
- satisfying shareholders, 13
- sectoral intelligence, 12

TAXATION OF INTELLECTUAL PROPERTY TRANSACTIONS

- expenses, *see* EXPENSES
- introduction, 169
- non-residents, 177-182
 - • payment for services rendered in Canada, 180
 - • payment of royalties and similar amounts to non-residents, 178-180
 - • transfer pricing considerations, 181-182

TAXATION OF INTELLECTUAL PROPERTY TRANSACTIONS —*continued*

- receipts, *see* RECEIPTS

TAX-BASED INCENTIVES*See also* PUBLIC POLICY OPTIONS TO INCENT INNOVATION

- “back-end” incentives – IP boxes, 272-273
- China’s patent box, 277
- “front-end” incentives, 269-272
 - • R&D programs in China, 271-272
 - • R&D programs in Europe, 271
 - • “research or experimental expenditures” in United States, 270-271
 - • “SR&ED” tax incentives in Canada, 270
- generally, 269
- IP box concerns, 277-278
- IP boxes in Europe, 273-277
 - • eligible forms of income, 275-276
 - • qualifying IP, 274-275
 - • tax rate, 273
 - • treatment of IP-related expenses, 276-277
- pros and cons of “front-end” incentives, 272

TECHNOLOGY TRANSFER AND GOVERNMENT

- conclusion, 267
- conflicts, 257
- contract drafting, 261-267
 - • collaboration agreement or CDRA, 263-265
 - • confidentiality agreement / non-disclosure agreement, 262-263
 - • general, 261-262
 - • license, 265-267
 - • material transfer agreement, 262
- culture, 253-257
- introduction, 253
- law, 259-260
- research and development, 258-259

TERMINATION OF LICENSES*See also* LICENSING

- generally, 105
- obligations on termination, 106
- termination for breach, 105
- termination for convenience, 105-106

TRANSACTIONS

- asset-backed securitization, 57-60
- back license, 52-53
- collateralization, 55-57
- introduction, 49-51
- license, 51-52
- reasons for entering into transactions, 64
- royalization, 60-63
- royalty sale, 54-55
- sale of licensed IP asset, 53

UNIVERSITIES, ACQUIRING INTELLECTUAL PROPERTY RIGHTS FROM

- background perspectives, 231-232
- contract research agreement, 239-242
 - • confidentiality, 240-241
 - • publication by institution, 241-242
- hybrid license, 251
- indemnification, limitation on damages, 251-252
- license agreement, *see* LICENSE AGREEMENTS, UNIVERSITIES
- negotiation of license agreement, 252
- overview, 227-231
- patent prosecution/infringement/validity, 250-251
 - • infringement by licensee, 250
 - • prosecution, 250
 - • third party infringement, 251
- process to acquiring IP rights, 237-238
 - • initial steps, 237
 - • non-disclosure agreements, 237-238
- technical services agreement, 238-239
- university options, 232-236
 - • challenge to academic freedom, 235-236
 - • challenges generally, 232-235

VALUATION OF INTELLECTUAL PROPERTY ASSETS

- intellectual property in context of business enterprise, 131-132
- intellectual property related litigation, 139-142
 - • infringement cases, 141-142
- introduction, 115
- price and value, difference between, 120
- valuation approaches, 125-131
 - • comparison of three approaches to valuation, 130-131
 - • cost approach, 126
 - • income approach, 125
 - • market approach, 126

VALUATION OF INTELLECTUAL PROPERTY ASSETS — *continued*

- valuation approaches applicable to intellectual property, 132-138
 - • cost savings method, 135
 - • direct methods, 134-137
 - • excess earnings and premium profit method, 134-135
 - • income approach method in valuation of intellectual property, 133-134
 - • indirect methods, 137-138
 - • relief from royalty method, 135-137
- valuation basis, 124-125
- valuation methods, 126-130
 - • analyses of prior transactions of interests in subject entity/asset, 129-130
 - • CCF method, 127-128
 - • DCF method, 126-127
 - • guideline public company method, 128-129
 - • precedent transactions method, 129
- valuation of business enterprise versus valuation of identifiable intangible assets, 193-194
- valuation of intangible assets, 194-195
 - • multi-period excess earnings method (MEEM), 194-195
 - • relief-from-royalty method, 195
- valuation principles, 118-120
 - • corroboration, 120
 - • minority and illiquidity, 120
 - • point in time, 119
 - • tangible asset backing, 120
 - • value is function of future expected cash flow, 119
- valuation process, 123-124
- valuation techniques in financial reporting context, 191-192
 - • cost approach, 192
 - • income approach, 191
 - • market approach, 192
- value definitions, 121-123
 - • fair market value, 121
 - • fair value, 122-123
 - • value to owner, 123
- when valuation is required, 115-118
 - • arm's length transactions, 116-117
 - • commercial litigation, 118
 - • financing, 118
 - • non-arm's length transactions, 117