

TABLE OF CONTENTS

<i>Preface</i>	iii
<i>Principal Authors</i>	ix
Chapter 1 Strategic and Revenue-Generating Aspects of Intellectual Property Assets	
1.1 INTRODUCTION	1
1.2 WHAT ARE INTELLECTUAL PROPERTY RIGHTS?	2
1.3 GROWTH IN INTELLECTUAL PROPERTY RIGHTS REGISTRATIONS	6
1.4 INTELLECTUAL PROPERTY RIGHTS AS SOURCES OF REVENUE	7
1.5 THE STRATEGIC UTILITY OF INTELLECTUAL PROPERTY RIGHTS	11
1.6 CONCLUSION: MOVING FORWARD INTO INTELLECTUAL PROPERTY TRANSACTIONS	14
Chapter 2 Commercializing Intellectual Assets	
2.1 INTRODUCTION	17
2.1.1 What is commercialization?	18
2.1.2 Consequences of commercialization	18
2.2 KEY ELEMENTS OF THE COMMERCIALIZATION PROCESS	18
2.2.1 Interactive assessment	19
2.2.2 Discovery	21
2.2.3 Development	22
2.2.4 Pre-commercialization	24
2.2.5 Commercialization	25
2.3 SELECTED LEGAL ISSUES	26
2.3.1 Confidentiality or non-disclosure arrangements	26
2.3.1.1 Form of agreement	27
2.3.1.2 Parties	27
2.3.1.3 Purpose of the disclosure	28
2.3.1.4 Definition of information	28
2.3.1.5 Requirements of formality	29

2.3.1.6	Non-disclosure obligation and restrictions on use.	29
2.3.1.7	Scope of the duty.	30
2.3.1.8	Permitted disclosure to others	30
2.3.1.9	Duration of the obligations	31
2.3.1.10	Common exclusions	32
2.3.1.11	Return of the information	33
2.3.1.12	No implied license	33
2.3.1.13	Unusual terms	33
2.3.1.14	Damages limitations	34
2.3.1.15	Confidentiality is not privacy	34
2.3.2	Assessment of the innovation for protection	34
2.3.2.1	Legal assessment	34
2.3.2.2	The business assessment	38
2.3.3	Invention disclosure program	41
2.3.4	Proto-type development	41
2.4	WORKING WITH A COMMERCIALIZATION ORGANIZATION.	42
2.4.1	General.	42
2.4.2	Rational for commercialization organizations	44
2.4.3	Steps of working with a commercialization organization	45
2.4.3.1	Preliminary education.	45
2.4.3.2	Engagement.	45
2.4.3.3	Assessment	45
2.4.3.4	Protection	46
2.4.3.5	Marketing	46
2.4.3.6	Start up	47
2.4.3.7	Communications.	48
2.4.3.8	Ending the relationship.	48

Chapter 3 Intellectual Property Asset Transactions

3.1	INTRODUCTION.	49
3.2	LICENCE	51
3.3	BACK LICENCE.	52
3.4	SALE OF A LICENSED IP ASSET.	53
3.5	ROYALTY SALE	54
3.6	COLLATERALIZATION	55
3.7	ASSET-BACKED SECURITIZATION	57
3.8	ROYALIZATION	60
3.9	CONCLUSION	64

Chapter 4 Intellectual Property Due Diligence

4.1 INTRODUCTION	65
4.1.1 Intellectual property audit	66
4.1.2 Transactional intellectual property due diligence	66
4.2 DETERMINING THE SCOPE OF THE DUE DILIGENCE EFFORT	68
4.3 ELEMENTS OF INTELLECTUAL PROPERTY DUE DILIGENCE	70
4.3.1 External searches	70
4.3.1.1 Defining where to search	71
4.3.1.2 Additional factors affecting searching	73
4.3.1.3 Limiting the scope of searching	74
4.3.2 Internal due diligence	76
4.3.2.1 Information disclosure request	77
4.3.2.2 Internal intellectual property file review	80
4.3.2.3 Interviews	81
4.3.2.4 Intellectual property agreement review	82
4.3.2.5 Limitations on internal assessment	84
4.3.3 Advanced due diligence	84
4.4 REPORTING	86

Chapter 5 Licensing

5.1 INTRODUCTION	87
5.1.1 What is a license?	87
5.1.2 Who are the parties to a license?	88
5.1.3 Why use a license agreement?	88
5.1.4 License agreements must relate to the specific IP rights	90
5.2 KEY ELEMENTS OF A LICENSE AGREEMENT	91
5.2.1 Grant of a license	91
5.2.2 Exclusivity	92
5.2.3 Subject matter	93
5.2.4 Field of use	93
5.2.5 Term	94
5.2.6 Territory	94
5.2.7 Sublicense rights	95
5.3 PAYMENT TERMS	95
5.3.1 Upfront payments	95
5.3.2 Milestone payments	95
5.3.3 Minimum payments	96
5.3.4 Royalties	96
5.3.5 Rule of thumb	99

5.4	STRATEGIC LICENSING	100
5.5	REPRESENTATIONS AND WARRANTIES.....	102
5.5.1	Title.....	102
5.5.2	Non-infringement	102
5.5.3	Performance.....	103
5.5.4	Maintenance of the intellectual property	104
5.6	INDEMNITIES	104
5.7	LIMITATION OF LIABILITY	104
5.8	TERMINATION	105
5.8.1	Termination for breach	105
5.8.2	Termination for convenience.....	105
5.8.3	Obligations on termination	106
5.9	INSOLVENCY.....	106
5.9.1	Insolvency generally.....	106
5.9.2	Licensee’s insolvency	107
5.9.3	Licensor’s insolvency.....	107
5.9.4	Law reform in Canada.....	108
5.10	SPECIAL CASES.....	110
5.10.1	Creative commons	110
5.10.2	Freeware, shareware and open source.....	111

Chapter 6 Intellectual Property Asset Valuation

6.1	INTRODUCTION.....	115
6.2	WHEN IS VALUATION REQUIRED?	115
6.2.1	Arm’s length transactions	116
6.2.2	Non-arm’s length transactions	117
6.2.3	Financing	118
6.2.4	Commercial litigation	118
6.3	VALUATION PRINCIPLES	118
6.3.1	Point in time.....	119
6.3.2	Value is a function of future expected cash flow	119
6.3.3	Tangible asset backing.....	120
6.3.4	Minority and illiquidity	120
6.3.5	Corroboration	120
6.4	DIFFERENCE BETWEEN PRICE AND VALUE	120
6.5	VALUE DEFINITIONS.....	121
6.5.1	Fair market value.....	121
6.5.2	Fair value	122
6.5.3	Value to the owner.....	123
6.6	THE VALUATION PROCESS	123
6.7	VALUATION BASIS	124

6.8	VALUATION APPROACHES	125
6.8.1	Income approach	125
6.8.2	Market approach	126
6.8.3	Cost approach	126
6.8.4	Valuation methods	126
6.8.4.1	The DCF method	126
6.8.4.2	The CCF method	127
6.8.4.3	The guideline public company method	128
6.8.4.4	The precedent transactions method	129
6.8.4.5	Analyses of prior transactions of interests in the subject entity/asset	129
6.8.5	Comparison of the three approaches to valuation	130
6.9	INTELLECTUAL PROPERTY IN THE CONTEXT OF A BUSINESS ENTERPRISE	131
6.10	VALUATION APPROACHES APPLICABLE TO INTELLECTUAL PROPERTY	132
6.10.1	The income approach method in the valuation of intellectual property	133
6.10.2	Application of the direct methods	134
6.10.2.1	The excess earnings and the premium profit method	134
6.10.2.2	The cost savings method	135
6.10.2.3	The relief from royalty method	135
6.10.3	Application of the indirect methods	137
6.11	INTELLECTUAL PROPERTY RELATED LITIGATION	139
6.11.1	Infringement cases	141
 Chapter 7 Taking and Enforcing Security in Intellectual Property Assets		
7.1	INTRODUCTION	143
7.2	LENDERS' CRITERIA FOR THE ACCEPTANCE OF INTANGIBLE ASSETS AS COLLATERAL	143
7.2.1	Identifiability	144
7.2.2	Title	144
7.2.3	Robustness	146
7.2.4	Liquidity	147
7.2.5	Valuability	147
7.3	TERM SHEETS, COMMITMENT LETTERS AND LOAN AGREEMENTS	147
7.3.1	Conditions precedent	148
7.3.2	Legal Opinion	149

7.3.3	Representations, warranties and covenants in a loan agreement	149
7.4	THE CREATION OF SECURITY INTERESTS	151
7.4.1	Provincial Personal Property Security Acts	151
7.4.1.1	Scope of the security interest	153
7.4.1.2	Describing the collateral	154
7.4.1.3	After-acquired property	155
7.4.1.4	Licenses as personal property	155
7.4.2	Security interests in the province of Québec	156
7.4.3	Multiple jurisdictions and multiple registrations	156
7.5	THE NECESSITY OF REGISTERING UNDER FEDERAL STATUTES	157
7.5.1	The <i>Patent Act</i>	159
7.5.2	The <i>Copyright Act</i>	159
7.5.3	The <i>Trade-marks Act</i>	160
7.5.4	The <i>Industrial Design Act</i>	160
7.5.5	The <i>Integrated Circuit Topography Act</i>	160
7.5.6	The <i>Plant Breeders' Rights Act</i>	161
7.6	BANK ACT SECURITY	161
7.7	LENDER'S REMEDIES UNDER A SECURITY AGREEMENT	162
7.7.1	Receivers	162
7.7.2	The receiver's ability to pass good title	163
7.8	LENDER'S REMEDIES UNDER A HYPOTHEC (QUÉBEC)	163
7.9	ENFORCING SECURITY IN A BANKRUPTCY	164
7.10	ISSUES RELATING TO LICENCES IN DEFAULT AND BANKRUPTCY PROCEEDINGS	166
7.11	CONCLUSION	167
Chapter 8 The Taxation of Intellectual Property Transactions		
8.1	INTRODUCTION	169
8.2	RECEIPTS	169
8.2.1	Income versus capital	170
8.2.2	Payments based on production or use	171
8.3	EXPENSES	172
8.3.1	Current expenses	172
8.3.2	Capital expenses	172
8.3.2.1	Capital cost allowance	173
8.3.2.2	Eligible capital expenditures	174
8.3.3	Research and development expenses	174
8.3.3.1	SR&ED expenses	175

8.3.3.2	Federal investment tax credits	176
8.3.3.3	Provincial tax credits	177
8.4	NON-RESIDENTS	177
8.4.1	Payment of royalties and similar amounts to non-residents	178
8.4.2	Payment for services rendered in Canada	180
8.4.3	Transfer pricing considerations	181

Chapter 9 Accounting for Intellectual Property Asset Transactions

9.1	INTRODUCTION	183
9.2	INTELLECTUAL PROPERTY AS INTANGIBLE ASSETS	184
9.2.1	Initial recognition of an intangible asset	184
9.2.2	Subsequent measurement of an intangible asset	185
9.3	INTERNALLY-GENERATED INTANGIBLE ASSETS	186
9.4	INTANGIBLE ASSETS IN BUSINESS COMBINATIONS	187
9.4.1	Overview	187
9.4.2	Goodwill versus intangible assets	189
9.4.3	Fair value versus fair market value	190
9.4.4	Market participants	191
9.4.5	Valuation techniques in a financial reporting context	191
9.4.5.1	Income approach	191
9.4.5.2	Market approach	192
9.4.5.3	Cost approach	192
9.4.6	The market participant concept – specific considerations in fair value measurement	192
9.4.6.1	The market participant concept – specific considerations when measuring fair value using an income approach	192
9.4.6.2	The market participant concept - valuing “dormant” intangible assets	193
9.4.7	Valuation of the business enterprise versus valuation of identifiable intangible assets	193
9.4.8	Valuation of intangible assets – specific methods under the income approach	194
9.4.8.1	Multi-period excess earnings method (MEEM)	194
9.4.8.2	Relief-from-royalty method	195
9.4.9	Rates of return and discount rate selection	196
9.4.10	Tax amortization benefits	196
9.4.11	Assessing the allocation between identifiable intangible assets and goodwill	196

9.5 ACQUISITION OF INTANGIBLE ASSETS	199
9.6 SUBSEQUENT MEASUREMENT	200
9.6.1 Cash-generating units	200
9.6.2 Impairment testing	200
9.6.3 VIU versus FVL COD	201
9.7 CONCLUSION	202

Chapter 10 Insuring against Litigation-based Transaction Risk

10.1 INTRODUCTION	205
10.2 STRUCTURE AND TERMINOLOGY OF INSURANCE POLICIES	207
10.2.1 The declarations	208
10.2.2 The coverage or insuring agreement	210
10.2.2.1 Exclusions	210
10.2.2.2 Conditions	211
10.2.2.3 Endorsements	211
10.3 DUTY TO DEFEND	211
10.4 COVERAGE FOR INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS UNDER NON-IP POLICIES	213
10.4.1 IP coverage under the CGL policy	213
10.5 IP COVERAGE UNDER DIRECTORS AND OFFICERS LIABILITY POLICIES	217
10.6 INFORMATION TECHNOLOGY POLICIES	218
10.7 IP-SPECIFIC COVERAGE	218
10.7.1 Defence (liability) coverage	220
10.7.2 Enforcement (pursuit) coverage	221
10.7.3 Multi-peril coverage	222
10.7.4 Wrap around policies	223
10.7.5 IP representations and warranties insurance	224
10.8 DEFENSE AND INDEMNITY AGREEMENTS	224
10.9 CONCLUSION	225

Chapter 11 Acquiring Intellectual Property Rights from Universities

11.1 OVERVIEW	227
11.2 BACKGROUND PERSPECTIVES	231
11.3 UNIVERSITY OPTIONS	232
11.3.1 Challenges generally	232
11.3.2 The challenge to academic freedom	235
11.4 THE PROCESS TO ACQUIRING IP RIGHTS	237
11.4.1 Initial steps	237

11.4.2	Non-disclosure agreements	237
11.5	TECHNICAL SERVICES OR CONTRACT RESEARCH	238
11.5.1	Technical services agreement	238
11.5.2	Contract research agreement	239
11.5.2.1	Confidentiality	240
11.5.2.2	Publication by the institution	241
11.6	LICENSE AGREEMENT	242
11.6.1	Ownership	243
11.6.2	Patent prosecution	244
11.6.3	Consideration	245
11.6.4	Exclusivity	246
11.6.5	Improvements	246
11.6.6	Specific terms and conditions of the license agreement	247
11.6.6.1	Representations and warranties	247
11.6.6.2	Nature of the grant of rights	247
11.6.6.3	Subsequent improvements	247
11.6.6.4	Exclusive versus non-exclusive	248
11.6.6.5	Milestones – performance obligations	248
11.6.6.6	Royalties/compensation alternatives	249
11.6.6.7	Additional research commitment/ improvements	249
11.6.6.8	Minimum annual royalties	249
11.7	PATENT PROSECUTION/INFRINGEMENT/ VALIDITY	250
11.7.1	Prosecution	250
11.7.2	Infringement by the licensee	250
11.7.3	Third party infringement	251
11.8	THE HYBRID LICENSE	251
11.9	INDEMNIFICATION, LIMITATION ON DAMAGES	251
11.10	CONCLUSIONS	252

Chapter 12 Technology Transfer and Government

12.1	INTRODUCTION	253
12.2	CULTURE	253
12.3	CONFLICTS	257
12.4	RESEARCH AND DEVELOPMENT	258
12.5	LAW	259
12.6	CONTRACT DRAFTING	261
12.6.1	General	261
12.6.2	Material transfer agreement	262

12.6.3 Confidentiality agreement / non-disclosure agreement	262
12.6.4 Collaboration agreement or CDRA	263
12.6.5 License	265
12.7 CONCLUSION	267

Chapter 13 Public Policy Options to Incent Innovation

13.1 INTRODUCTION	269
13.2 TAX-BASED INCENTIVES	269
13.2.1 “Front-end” incentives	269
13.2.1.1 “SR&ED” tax incentives in Canada	270
13.2.1.2 “Research or experimental expenditures” in the United States	270
13.2.1.3 R&D programs in Europe	271
13.2.1.4 R&D programs in China	271
13.2.2 Pros and cons of “front-end” incentives	272
13.2.3 “Back-end” incentives – IP boxes	272
13.2.3.1 IP boxes in Europe	273
13.2.3.1.1 Tax rate	273
13.2.3.1.2 Qualifying IP	274
13.2.3.1.3 Eligible forms of income	275
13.2.3.1.4 Treatment of IP-related expenses	276
13.2.3.2 China’s patent box	277
13.2.4 IP box concerns	277
13.3 DIRECT FUNDING	278
13.3.1 Early-stage funding programs	278
13.3.1.1 Canada accelerator and incubator program	278
13.3.1.2 Business innovation access program	279
13.3.2 Grants for filing	280
13.3.2.1 Quebec – first patent program	280
13.3.2.2 Hong Kong – patent application grant	280
13.3.2.3 China – Article 16 reward and remuneration	281
13.4 SECOND TIER PATENT SYSTEMS	282
13.4.1 Examples	282
13.4.1.1 German utility models	282
13.4.1.2 Japanese utility models	282
13.4.1.3 Chinese utility models	283
13.4.1.4 Australian innovation patents	283
13.4.2 Pros and cons of second tier patent systems	284

13.5 CHANGES TO PATENT LAWS / EXAMINATION PROCEDURES	284
13.5.1 Green technology and accelerated patent examination programs	284
13.6 CONCLUSION	286
 Chapter 14 Commercial Value and Patent Validity	
14.1 INTRODUCTION	287
14.2 PATENT CLAIMS	289
14.3 ANTICIPATION	290
14.4 OBVIOUSNESS	291
14.5 INSUFFICIENCY	293
14.6 AMBIGUITY	295
14.7 UTILITY AND SOUND PREDICTION	297
14.8 THE GILLETTE DEFENCE	299
14.9 DOUBLE PATENTING	299
14.10 CLAIMS BROADER THAN INVENTION MADE OF DISCLOSED	301
14.11 SELECTION PATENTS	303
14.12 SPECIAL CONSIDERATIONS WITH RESPECT TO PHARMACEUTICALS AND BIOLOGICS	304
14.12.1 The NOC Regulations	304
14.12.2 The PMPRB	306
14.13 CONCLUSION	307
<i>Index</i>	309

