

Technology and Intellectual Property Bulletin

November 2009

Fasken Martineau DuMoulin LLP

Commercializing Intellectual Property for Businesses

Authors: Mark D. Penner and Kevin E. Holbeche

Vancouver

Calgary

Toronto

Ottawa

Montréal

Québec City

London

Paris

Johannesburg

www.fasken.com

Most businesses and companies are brimming with intellectual property (“IP”) which may have significant commercial value. Commercialization is a way to capitalize on that value by taking an idea, prototype, invention, etc., and developing and selling it in the form of a commercially viable product. In the current economic climate, maximizing this commercial value is an increasingly important priority for companies. With growing operating costs and the difficulties of generating revenue from “traditional” sources, businesses have an increasing need for capital, such as that which might be created via IP commercialization.

In this overview, we provide a brief review of some of the key elements of commercialization strategies which companies can employ to maximize their return on investment.

Key Commercialization Issues

The key commercialization issues essentially revolve around three factors:

1. Identifying and protecting intellectual property rights (“IPRs”);
2. Evaluating the commercial potential of IPRs; and

3. Choosing the appropriate route of commercialization.

With respect to obtaining, identifying and protecting IP, it is extremely important for businesses to consider all forms of IPRs. This means focusing not only on patents but also on other IP rights such as copyright, trade-marks, trade secrets and confidential information. By focusing on each of these forms of IP protection, institutions will ensure they do not overlook a valuable source of potential revenue generation. For example, while some may focus on the development of new technologies and methods of manufacturing, there may be some under-capitalized value in forms developed and used by the sales, shipping, customer support and/or human resources departments of the company. Such forms may be the subject of copyright protection, which in general will be much cheaper and faster to obtain than patent protection. In addition, licensing of a company’s “brand” may also provide much needed revenue. Alternatively, trades secrets or confidentiality may be another way to protect certain types of information (e.g., a chemical formula or instructions for making a substance or material used in the company’s products). In the appropriate context, the trade secret could be licensed for revenue generation.

Once the appropriate IPRs have been identified, it is necessary to determine the IPR “landscape”. Have there been any prior public disclosures by the inventors (possibly negating the ability to obtain patent protection), or has someone else invented or tried to patent the development? With regard to whether the company or business even has the right to commercialize the development, does any third party have rights that could restrict the manufacture, use or sale of the development? It is also important to confirm that the company owns the IP which has been developed. This process involves making sure that all of the necessary inventors or authors have been properly identified, and that they are required to transfer all the applicable rights to the company. The process can be more complex where there are a number of different collaborators, each of whom may be an author or inventor. To add a further wrinkle, where such collaborators are affiliated with third parties, these third parties may then have an ownership interest in the development.

Also, there should be an analysis of the development’s commercialization potential. Factors such as current and future market size, and the required expertise to commercialize the development should be considered. For example, does the business have the necessary expertise internally, or does it need external expertise?

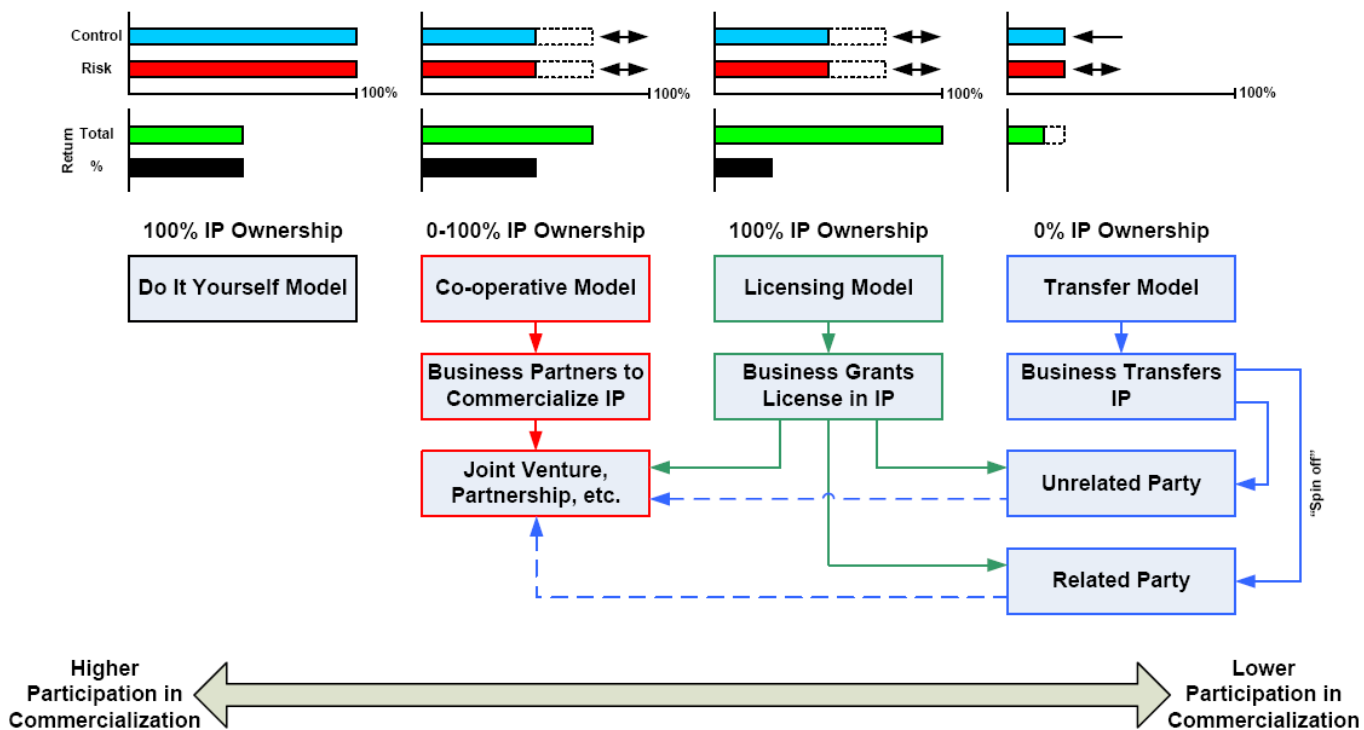
Once a company decides to commercialize its development, it should also consider which commercialization path would be best for the business. Generally speaking, there are four possible commercialization models. The four models are explained below and are summarized in the attached figure. It will, however, be understood that various combinations of these models can be applied when commercializing the technology.

The first model is the “DIY” (or Do-It-Yourself) model. This approach may be practical if the business has the significant resources on hand which will be required to commercialize the IP. With such

a model, the company will maintain maximum control over the commercialization process. However, there are a number of key proficiencies (such as knowledge of any vertically and horizontally integrated businesses) that may be required in order for the company to successfully commercialize the IP.

The next model is the “cooperation” or “collaboration” model, in which a company or business may work with another entity (i.e., a commercialization partner) through either, for example, a partnership or joint venture to maximize the potential for development. Key aspects of this model will include structuring the relationship, identifying the responsibilities of each of the parties (who does what and when), and addressing ownership (or co-ownership) of IPRs for current and future developments.

The third model is the “licensing” model, in which a company will license its IP to another entity who may be better positioned to develop it. The entity may be a related party (e.g., a spin off or joint venture entity, or a vertically or horizontally integrated company) or an unrelated third party. In a licensing relationship, key issues to address will include: the nature of the license grant (e.g., exclusive/non-exclusive), the compensation model (e.g., royalties, milestone payments, etc.), ownership of future IP developments, and any restrictions on public disclosure of the technology. In this context, it will be important to appropriately allocate the risk and responsibilities through the licensing agreement. Usually, this is done through various representations and warranties by the parties, and the licensor may be required to indemnify the licensee should there be allegations by third parties of invalidity or infringement. More importantly, it is necessary to confirm that there are no ownership issues for the underlying technology, and that the licensor is actually the owner of the licensed IPR.



Finally, in a “transfer” model, a company will try to find an appropriate entity to whom to sell the IPRs. As with the licensing model, this may be a related party (e.g., a spin off or joint venture entity, or a vertically or horizontally integrated company) or an unrelated party. Here, the key issues may include the form and quantum of compensation, and whether or not there is a license back. It is important to understand that, even with the transfer model, there will likely still be some risk because the assigning company may offer various representations and warranties with respect to the validity, non-infringement and ownership of the IP. Also, the purchaser will likely conduct some form of due diligence concerning the intellectual property, with one of the key aspects being ownership thereof. It will be necessary for the owner of the intellectual property to make sure it addresses any and all issues with respect to ownership prior to any such due diligence process.

For each of the various models noted above, some of the main factors to consider are the degree of control which the company or business will have over the commercialization process, the allocation of risk (particularly for the company), and the return on investment. The DIY model will afford the business the greatest degree of control over commercialization. This control is lower for those companies utilizing the cooperative model, and likely lower still in the licensing model. In the transfer model, the company’s control over the commercialization process will typically be the lowest.

Not surprisingly, the allocation of risk may generally track the degree of control that the company or business enjoys. That is, generally speaking, the higher the degree of control, the greater the risk. Similarly, the lower the control, the lower the risk for the company. Finally, it is also generally the case that the less control over the commercialization

process which is afforded to the company, the lower its potential return on investment (“ROI”).

In view of the complexities involved, it is necessary for each business to balance its desired control, risk and ROI to identify the best route of commercialization for its valuable intellectual property.

It will be apparent then that commercializing IP requires a multifaceted analysis which takes into account a number of different considerations. Like the old adage which states “the devil is in the

details”, it is necessary to fully understand the different considerations so as to obtain the best results for the company.

For more information on the subject of this bulletin, please contact the authors.

Mark D. Penner

416 868 3501

mpenner@fasken.com

Kevin E. Holbeche

416 868 3404

kholbeche@fasken.com

Our Technology and Intellectual Property Group

Vancouver

Roger A.C. Kuypers
604 631 4880
rkuypers@fasken.com

Bruce Tattrie
604 631 4753
btattrie@fasken.com

David Wotherspoon
604 631 3179
dwotherspoon@fasken.com

Toronto

May M. Cheng
416 865 4547
mcheng@fasken.com

C. Ian Kyer
416 865 4396
ikyer@fasken.com

John P. Beardwood
416 866 3490
jbeardwood@fasken.com

Ottawa

Stephen B. Acker
613 236 3882
sacker@fasken.com

Gerald (Jay) Kerr-Wilson
613 236 3882
jkerrwilson@fasken.com

J. Aidan O'Neill
613 236 3882
aoneill@fasken.com

Montréal

Julie Desrosiers
514 397 7516
jdesrosiers@fasken.com

Marie Lafleur
514 397 7529
mlafleur@fasken.com

Marek Nitoslawski
514 397 4335
mnitoslawski@fasken.com

Stéphanie Gilker
514 397 7608
sgilker@fasken.com

London

Ralph Cox
+44 207 917 8622
rcox@fasken.co.uk

This publication is intended to provide information to clients on recent developments in provincial, national and international law. Articles in this bulletin are not legal opinions and readers should not act on the basis of these articles without first consulting a lawyer who will provide analysis and advice on a specific matter. Fasken Martineau DuMoulin LLP is a limited liability partnership and includes law corporations.

© 2009 Fasken Martineau DuMoulin LLP

Vancouver

604 631 3131
vancouver@fasken.com

Calgary

403 261 5350
calgary@fasken.com

Toronto

416 366 8381
toronto@fasken.com

Ottawa

613 236 3882
ottawa@fasken.com

Montréal

514 397 7400
montreal@fasken.com

Québec City

418 640 2000
quebeccity@fasken.com

London

44 (0)20 7917 8500
london@fasken.co.uk

Paris

33 1 44 94 9698
paris@fasken.com

Johannesburg

27 11 685 0800
johannesburg@fasken.com