

The Sport of IP Commercialisation

Scott Buchanan
Principal
Buchanan Law
Intellectual Property & Technology
Canberra

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The game and its players

The Coach

You, the legal adviser

The Team

Your client

The Game Plan

Your client's IP commercialisation strategy designed to maximise team's unique strengths and weaknesses

The Competition

Your client's industry - its competitors (existing and new)

The Star Recruit

The licensee/ franchisee/ alliance partner, etc.

The Sponsor

The venture capitalist, financiers, Govt. grants, etc.



The game and its players

Rules of the game

The licence agreement and the Law!

Banned performance enhancing substances

Anti-competitive conduct prohibited by the TPA

[the masking agent]

[Section 51(3) TPA]

Tribunal and Referee

The Courts and Judges

The Premiership

Successful commercialisation of the team's IP



The Fundamentals

Pre-season briefing

- » What is IP?
- » The value of Intellectual Property Rights?
- » What is IP commercialisation?
- » Why all the fuss?



What is Intellectual Property?

Refers to the various rights accorded by our laws to protect the creative and mental effort of our minds and the economic investment behind this effort.

The major forms:

- » patents
- » trade marks
- » copyright
- » Designs
- » confidential information (not strictly speaking IP)

The Coach must understand the idiosyncrasies with each form of IP to understand issues relating to their creation, ownership, management, exploitation and enforcement.



The value of Intellectual Property Rights

IP Assets are just like real property - they can be sold, bought, leased and even used as security.

Intellectual Property Rights entail for example:

1. **exclusive rights to the use** of the IP including:
 - a. the right to manufacture, use, sell etc an invented product or process covered by the grant of a patent;
 - b. the right to use a particular word, logo, colour, shape or scent as a trade mark as a badge of origin;
 - c. in relation to copyright materials, the right to copy, adapt, publish, perform and communicate them to the public; and
 - d. the right to use an industrial design in relation to the goods covered by the registration



The value of Intellectual Property Rights

2. the **exclusive ability to control** the development and exploitation of the IP including the right to:
 - a. assign (sell or transfer) the intellectual property; or
 - b. grant licences to others to use the IP including the rights to fragment the intellectual property rights in a myriad of ways - eg. by territory, by application, by use and whether or not an exclusive basis;



The value of Intellectual Property Rights

3. the right to **use the IP as security** for loans;
4. **standing to enforce** these rights against unauthorised users before a court of law
(eg. by an account of profits, damages or an injunction restraining the infringing conduct).



More to IP rights however than beer and skittles

'IPR also entail liabilities of the kind that are usually associated with the ownership of any property including the liability to taxation or legal actions in negligence, contractual obligations to indemnify or protect other parties, registration and maintenance costs and other imposts.'

Mapping Australian Science and Innovation: Working Paper, Commercialisation, Utilisation and Intellectual Property. (DITR)

TIP

Consider section 10(1)(g)(iii) of the **Duties Act 1999** concerning transfer of business assets (broadly defined) including an interest granted in an asset.



What is the commercialisation of IP?

The achievement of a financial or other beneficial return, on the investment in the creation of products, processes and other creative and innovative materials in which IPR reside.

‘Commercialisation transforms ideas, knowledge into greater wealth for individuals, businesses and society as a whole. Indeed, commercialisation is regarded as the key mechanism through which investment in research is realised by generation into products and processes that create wealth and jobs.’

Mapping Australian Science and Innovation: Working Paper, Commercialisation, Utilisation and Intellectual Property. (DITR)



Why all the fuss?

'For more than 60% of ASX 200 companies, the value of their intangible assets such as brand names, licences, patents and R&D - all knowledge intensive assets - accounted for at least half their market capitalisation. The contribution of intangible assets to the value of the company is increasing, and the key to enhancing shareholder value in the future will be exploiting the value of those assets.'

Mapping Australian Science and Innovation: Working Paper, Commercialisation, Utilisation and Intellectual Property. (DITR)



Importance of IP

- » Competitive advantage is increasingly residing in their IP Assets - brands, information, processes, trade secrets, software licences etc
- » Companies owe responsibility to their stakeholders/shareholders to preserve the value of their IP Assets and their competitive advantage.
- » Advisers play a significant role in helping companies achieve this:
 - ensuring systems in place to efficiently capture new IP;
 - avoid costs associated with duplication;
 - managing IP licences (both in and out);
 - avoid infringing third party IP rights



Road to Glory!

The Pre-season

- » IP Due Diligence - identifying IP
- » Secure ownership and other rights
- » Assessing risks including conducting infringement searches
- » Systems to effectively capture new IP
- » product & prototype development
- » engaging 3rd party designers and manufacturers

Developing the game plan

- » In-house or license out?
- » Time and resources available?
- » Strength of the team's IP
- » First to Market or Sure-Up IP?



Road to Glory!

Locating and attracting the Star Recruit

- » Alliance partner
- » Joint venturer
- » Partner
- » Licensee
- » Franchisee

Negotiating contract with Star Recruit

- » The grant of rights
- » Take advantage of flexibility of licensing to create appropriate balance between granting necessary rights to stimulate incentive to perform
- » Ideal licence agreement is:
 - commercially effective
 - legally compliant
 - understandable
- » contract must create 'win-win'



The Pre-season

Laying the foundations for successful IP commercialisation - *It's all about careful planning.*

- » Preparatory steps of identifying and securing ownership to all *relevant* IPR
- » Identifying risks and implementing risk management strategy
- » conducting IP infringement searches to guide R&D and licensing activities
- » identifying required technology to be licensed-in and other restrictions to commercialisation.
- » Consideration to establishment of IP holding structures & other asset protection strategies

TIP

Knowing what constitutes a sophisticated and well developed IP plan places the coach in a great position to scrutinise the opposition



Effectiveness of pre-season

Factors impacting on our ability to contribute to the team's commercialisation objectives:

- » timing - eg at what point of the commercialisation junction the team appoints the coach (too late to patent, leverage lost to secure IP ownership, confidentiality lost?)
- » research push vs market pull
- » resources available (time, money & internal expertise)
- » importance of project & team's goals
- » internal policies - patent centric vs information sharing
- » restraints and restrictions imposed by 3rd party licensors and financiers
- » Ts and Cs of funding agreements and Govt. commercialisation grants



Timing of the coach's appointment

Are you ...

1. The New coach at a New club at the beginning of New Season?

If so, great:

- » implement systems for the effective identification & capture of new IP
- » educate key personnel to increase awareness about 'IP basics'
- » create new robust brands before investing in them
- » conduct necessary patent, design, trade mark searches the results of which can guide the development of new technology, business, marketing plans
- » identify and obtain necessary third party licences.

TIP

Beware of limitations of any searches conducted eg international applications, provisional patents not yet published, common law trade marks. Need for subsequent searching closer to launch to ensure search results still relevant.



Timing of the coach's appointment

or are you ...

2. The new coach replacing the sacked coach one month before world cup qualifier in Uruguay?

If so, ... well, **anything's possible!**



A strong claim to ownership

- » Ownership means ability to control the direction of exploitation including controlling further development and use of the technology.
- » Ability to attract financiers and prospective licensees/franchisees etc will turn on evidence of good title.
- » Ability to enforce (i.e. standing) against unauthorised users.
- » Informed position when conceding warranties and accepting liability.



Obtaining ownership

- » Beware of limitations under relevant IP statutes and common law.
- » Implement contracts with all personnel and 3rd parties involved in development:
 - employee agreements
 - contractors and *their* sub-contractors
 - confidentiality agreements
- » Ownership may not always be possible, necessary or cost effective.
- » License-in the technology but on sufficiently strong rights including right to sub-license, modify and adapt.



Obtaining ownership

TIPS

- » Don't forget detailed written Moral Rights consents in all contracts
- » Employee invention clauses should refer to all employee inventions regardless of whether within scope of employment (see *Spencer Industries Pty Ltd v Collins*)



Difficulties in obtaining ownership

Circumstances can arise where the team has trouble securing ownership therefore important to understand alternatives to ownership:

- » return on commercialisation revenues - e.g. equity in a spin-off or options to participate in commercialisation phase
- » but beware joint ownership

TIP

If ownership of IP disputed between company and contractor consider whether contractor holds IP on constructive trust (e.g. see *Grigg Group Ltd & Ors v Evans & Ors* 2003 EWHC 2914)



Beware of limitations with joint ownership of IP

- » presumption of ownership as tenants in common
- » it varies depending upon type of IP (and country) but co-owners generally have the following rights:
 - to use, modify and develop the technology without consent or payment of other co-owners
 - not license, assign or use it as security without the consent of other co-owners
- » the major practical problems therefore from co-ownership:
 - one party's ability to frustrate the commercialisation of the technology without regard to their actual contribution
 - one party's ability to jeopardise the value of the technology to others



Developing the Game Plan



Identifying the IP - what does the playlist look like?

It's time to play to strengths and develop a game plan that reflects:

- » strength of IP rights (both yours and the opposition)
- » the business model and product type - is it a simple idea or a complex product?
- » the size of investment to be protected
- » size of market to be captured
- » the speed of evolution in the market place
- » barriers to market entry and competition
- » the team's resources and the state of the competition.

Let's look at a couple of contrasting styles ...



The wide, expansive, free flowing, running game

- » This style is particularly suited for products/business/processes with minimal IPR protecting the actual functionality of goods/services etc. but rather focussing on IPR underlying brand and appearance.
- » Characterised by an aggressive and fast arrival on the market putting opposition on back foot, backed by heavy investment in marketing, developing a recognisable brand with strong consumer appeal. Subsequent arrivals look like imitators.
- » Great proponents of the game include **Boost Juice** and **Virgin**.



Tips to winning at the wide, expansive game

- » encourage distinctive rather than descriptive brands
- » adopt broad approach to trade marks and register any relevant colours, shapes, scents!
- » conduct clearance searches
- » register TMs in all appropriate classes
- » document all business processes and obtain ownership of ©
- » keep relevant trade secrets and processes confidential



The defensive, flooding game...

- » This game plan is characterised by securing all available IP with particular regard to monopoly rights afforded by patents so as to protect against all competitors including independent creators.
- » Style suited for products/processes which may be easily reversed engineered and/or which are the result of substantial investment made and the need to secure long term monopoly rights.
- » Great proponents - the big pharmaceutical companies.



Some nice set pieces to consider...

Filing the provisional patent application prior to negotiations

- » cost effective
- » allows time for further development & refinement
- » delay decision whether to file full spec. & publish
- » creates leverage
- » acts as a potential deterrent to going it alone
- » insurance in circumstances where negotiations break-down



Another set piece...

Don't underestimate the value of copyright to provide de facto protection for ideas

- » absence of patent rights or confidentiality not always fatal to protection of information/ideas contained in expansive banks of data
- » copyright law trending more towards recognition of copyright in sweat of brow and economic investment cases - *e.g. High Court decision in Telstra & Desktop Publishing*



Locating, attracting and negotiating the Star Recruit



A bit about licensing

The game plan often involves identifying the need for a star recruit.

This may happen at various stages of the commercialisation season whether at the kick-off of the commercialisation season or mid season when the team's limitations are exposed.

TIP

- » Beware risks posed by s.52 TPA recruiting licensees/franchisees
- » Avoid sales and profitability forecasts
- » See Lenard's case for guidance on best practice in drafting effective disclaimers (Poulet Frais Pty Ltd v The Silver Fox Company Pty Ltd (2005) FCAFC 131)



Widespread application of licensing

The various commercialisation vehicles usually involve some form of licensing, consider for example:

- » Cross licensing arrangement present in Strategic Alliances, Joint Ventures and Partnerships
- » Licensing a spin-off company or commercialisation agent
- » Franchisee (e.g. Trade Mark and/or Business format licence)
- » Sponsorship Agreements (usually a trade mark licence)
- » Software licence EULAs (eg licence to use copyright in software)



Licensing

- » most common form of IP commercialisation involves licensing another entity the right to use and exploit the IP
- » flexible and powerful commercialisation tool to give effect to a myriad of strategies (understanding of bundle of rights attaching to different form of IP required to capitalise on available flexibility)
- » Since an IP owner will seek to maximise the commercial returns from the IP, careful consideration needs to be given to the strategy to be adopted
- » The key consideration will usually be the scope of the licence granted.



The fundamental parameters of technology licensing agreements

Exclusivity

Royalty/Payment

Transferability

Term

Revocability

Field of use

Territory

Sublicensing

* From McGuiness P, *Intellectual Property Commercialisation: A business manager's companion*, LexisNexis 2003



Scope of licence grant

The scope of a licence can be structured and fragmented in a multitude of different ways and provided to one or many licensees in a range of combinations including licensing by reference to:

- » a specific right (e.g. in relation to copyright the right to reproduce, communicate to the public and adapt)
- » territory
- » fields of use or application
- » industry
- » exclusivity (or non-exclusive or sole basis)



Beware granting broad licence rights

- » Has the licensee got the resources & business plan to justify an exclusive grant?
- » Is licensor being appropriately compensated for grant of exclusivity?
- » Consider minimum performance requirements and the right to convert exclusive rights to non-exclusive rights.



Understanding the IP rights to be licensed

- » To successfully advise on licensing strategies lawyers must understand the distinct boundaries of the monopoly rights attaching to each of the different types of IPR in the relevant technology being licensed.
- » One piece of technology may involve patent rights, copyright in underlying source code and related manuals, registered trade mark rights associated with the product brand and rights relating to confidential information and trade secrets with respect to the workings of the invention.



Tips:

Beware of copyright & design overlap.

Copyright might be lost in circumstances where the copyright material is subject of industrial application.

Beware trade mark licences.

A trade mark licence could be deemed a franchise agreement under Franchising Code of Conduct.

This gives rise to a broad range of compliance issues.



Trade Mark Licence or Franchise Agreement?

A trade mark licence may inadvertently constitute a franchise agreement

For example, does the licence involve ...

- » the grant of rights to carry on the business of offering, supplying, distributing goods/services in Australia
- » under a system or marketing plan [consider whether the licence agreement is so prescriptive as to constitute a business plan]
- » substantially determined, controlled or suggested by the licensor
- » associated with the licensor's trade mark?



Consequences of being deemed a franchisor

- » Compliance with mandatory Code of Conduct under TPA
- » Onerous Disclosure requirements
- » Minimum protections incorporated into all Franchise Agreements
- » Severe penalties for breach

Beware

s.75 TPA - liability for any person (including advisers) involved in the preparation of Disclosure Documents.
Extensive Due Diligence required to minimise risk of liability.



Creating the 'win-win' contract

- » successful IP commercialisation depends ultimately on the success of the licensee
- » forget the adversarial approach to negotiation and drafting!
- » winning is no longer about imposing the harshest possible conditions on licensees - particularly in times when hot competition to attract quality franchisees



Creating the 'win-win' contract

- » collaborative & co-operative approach required from outset
- » trust, open communication, transparency and on-going support all critical to a successful licence agreement
- » you are entrusting the team's success to the activities of the players therefore incentives required to ensure ongoing maintenance of value of IP

TIP

Beware using precedent agreements. Trap is to try and make the deal fit the agreement rather than the other way around. No 2 IP commercialisation deals are the same. Negotiate a terms sheet wherever practicable to guide drafting of the main agreement.



Tip - Beware boiler plate clauses

- » Usual to seek to expressly exclude relationships of partner/JV. (eg to avoid agency, tax of partnership and joint & several liability)
- » However, consider whether fiduciary duties ordinarily associated with these relationships are in fact appropriate in light of value of IP being entrusted to licensee, for example:
 - not using person's position or knowledge to person's own benefit;
 - not using a position or knowledge to detriment of a person to whom duty is owed



Competition Law - Penalties for banned legal substances!

Competition issues often arise in IP and technology related contracts:

1. Contracts between industry participants may have unlawful anti-competitive purposes or effects; and
2. Contracting parties may seek to impose unlawful restraints or restrictions.



Competition Law - Penalties for banned legal substances!

Two relevant sources to consider:

1. general law rule against restraints of trade; and
2. the Trade Practices Act 1974 (Cth)

A breach of TPA competition laws can result in fines of up to \$10 million for corporations and \$500,000 for individuals plus liability for damages. Directors and other executives can also be personally liable.



Examples of potentially anti-competitive clauses

- » requiring a licensee to assign IP in all modifications, developments etc in a licensed technology back to the licensor
- » restricting a distributor from selling competing products during and post agreement
- » restricting use of any information disclosed by one party to another regardless of whether information is in fact confidential
- » prohibiting another party (eg employees) from competing post termination of contract
- » licence and franchise agreements that seek to impose minimum resale prices (RPM)



Common law doctrine of restraint of trade

Restraints of trade are void unless reasonable

Determining reasonableness:

- » what is the legitimate interest sought to be protected?
(No one has a right to be protected against competition)
- » what is the scope of the restraint - how broad?
- » identifying relevant circumstances that at existed at time restraint entered into.
- » Does the restraint do no more than is necessary to protect legitimate interests?



What is a legitimate interest?

There are many commercial interests considered legitimate and capable of protection through a reasonable restraint:

- » goodwill - e.g. trade connections and customer relationships
- » reputation in a particular line of goods / services
- » reputation in an established recognisable brand
- » useful information not capable of protection via laws of confidence



Is IP a legitimate interest capable of protection via restraint?

- » IPR is a legitimate interest but already protected at law.
- » IPRs do not need to be protected by a restraint of trade clause b/c law provides the IPR owner with the ability to enforce unauthorised use of IPRs.
- » To the extent a restraint is imposed to protect IPR it is probably unreasonable b/c it goes further than the law to protect the legitimate interest.



Distinction between restraints 'during' and 'after' contract

General rule: commercially reasonable conditions relating to IPR imposed during a contract as part of the bargain struck generally *not* void restraints.

- » restraining a franchisee from selling unauthorised products
- » restraining a patent licensee from challenging the validity of the patent
- » restraining an exclusive distributor from selling competing products



Post termination IPR restraints

These types of clauses usually regarded as commercially reasonable b/c licensor granting exclusive rights over part of its IPR in exchange for licensee's commitment to the commercialisation of IPR.

Once terminated then the licensor will often have no legitimate interest to protect other than the relevant IPR which can be enforced in the usual way.



Drafting the restraint

- » identify the legitimate interest sought to be protected
- » how might the licensee jeopardise that interest post contract?
- » what is the least restrictive way to protect the interests? Are IPRs enough or do you need to prevent licensee from using certain information/trade secrets etc?
- » drafting a narrow restraint that looks reasonable on its face less likely to lead to litigation
- » use cascading clause capable of being read down
- » avoid ambiguity



Anti-competitive provisions of the TPA

Two types of anti-competitive conduct to bear in mind in IP Commercialisation

1. **Horizontal:** conduct between competitors - e.g. price fixing
2. **Vertical:** conduct through the distribution chain - e.g. anti-competitive terms imposed by a licensor on a licensee such as RPM or exclusive dealing arrangements



Section 51(3)

An enterprise may avoid breaches of *certain* (not all) prohibitions against anti-competitive conduct if the conduct relates to the exploitation of *certain* (not all) forms of IPR.

The otherwise anti-competitive clause must *relate* to the subject matter of the IPR.



Exempted conduct under s.51(3)

- » Anti-competitive conduct - s45 (contracts, understandings, arrangements with a purpose or effect or likely effect of SLC in the market)
- » Price Fixing - s.45A
- » Exclusive Dealing - s.47
- » Mergers and Acquisitions



Types of IPR covered by s.51(3)

Must relate to Australian IPR

- » patents
- » designs
- » copyright
- » circuit layouts
- » some trade mark rights



IPRs excluded from operation of s.51(3)

- » unregistered trade marks (even if application for registration on foot)
- » licensing of PBRs
- » Future IPRs

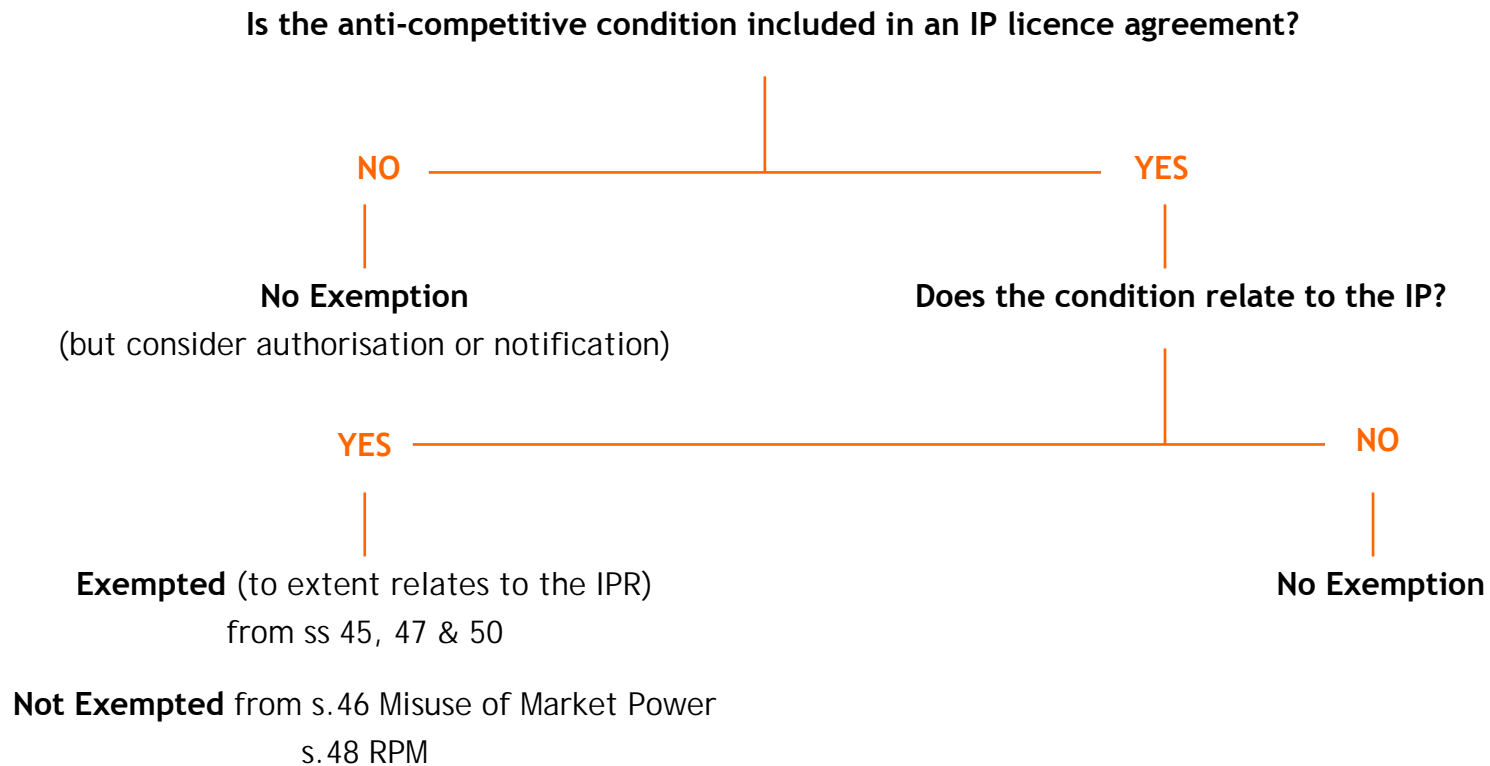


Restrictive Trade Practices not exempt under s.51(3)

- » Resale Price Maintenance - prohibited by TPA
- » Misuse of Market Power - prohibited by s.46



Operation of s.51(3)





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