WORKING PAPER

An Intellectual Property Governance Framework and the role of Board of Directors: Issues, Opportunities, and Best Practices

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Abstract

This paper examines the gap between the historical prioritization of non-IP (intellectual property) issues for board of directors against both the legal requirements and market activities which suggest IP should be a key topic for boards to consider. A survey of current law and literature was conducted to identify the top IP specific governance challenges, looking at business IP transactions and patent pools as proxy to extract governance related topics. As a result, this paper provides a better understanding of the top IP related governance issues and opportunities boards and directors should consider, and recommends five best practices to enact an IP governance framework. In assembling these best practices this research has implications beyond board members and directors. Shareholders, analysts, regulators, and policy makers need to be aware and actively influencing boards to prioritizing IP assets and IP risks in their governance frameworks.

Keywords: governance, board of directors, directors, officers, intellectual property, patent, patent pools, patent fund, best practices

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Introduction

In general, Intellectual Property (IP) is not seen as a topic many boards consider as a top risk. North Carolina State University's ERM Initiative and Protiviti released a 2018 survey of top risks from global boards of directors and executives, but there was no mention of IP specific topics.[1] Similarly, PWC's Annual Corporate Directors Survey that highlights key issues on directors' topics does not mention IP related topics despite noting the high value intangibles bring to a corporation.[2] In addition, various reports on directors responsibilities in Canada make no direct mention of IP as a specific issue, either stand alone or underneath obligations or duties.[3] Institutional investors and organizations such as FAIR Canada (FAIR) and Canadian Coalition for Good Governance (CCGG) have had a key role in influencing good governance practices, yet they have not specifically addressed the IP topic.[4] This gap has not gone unnoticed: a report by the Conference Board of Canada on impacts of IP with regards to Canada's economic future raised the concern that "governance of IP presents a novel challenge for directors yet to our knowledge, none of the governance advisory bodies, such as the Toronto Stock Exchange (TSX) and the provincial securities regulators, allude to intellectual property in their governance guidelines or educational documents.".[5]

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[1] Protiviti Inc and North Carolina State University, *Executive Perspectives on Top Risks for 2018, Key Issues Being Discussed in the Boardroom and the C-Suite* (2018).

[2] Governance Insights Center, *PWC's 2017 Annual Corporate Directors Survey* (2017). Ocean Tomo 300 Index online: <www.oceantomo.com/ocean-tomo-300/> [*Ocean Tomo*], 87% of S&P 500 market value is in intangibles. Ocean Tomo IP merchant bank provides the Ocean Tomo 300® Patent Index, based on the value of IP of 300 S&P listed corporations.

[3] Institute of Corporate Directors, *Osler's Director's Responsibilities in Canada* (2014).

[4] Authors' review.

[5] Ruth M. Corbin, *Intellectual Property in the 21st Century* (Ottawa: Conference board of Canada, 2010), at 62.

In contrast, a key governance issue report by Deloitte notes that 80% of corporate value is found in intangible assets, yet ultimately recommends in addressing intangibles boards of directors must look at integrated reporting to understand where the organizational value is created, making no mention of management or oversight of the intangible.[6] This corporate intangible value is in alignment with many IP based business events: A collective $5B in IP valuations and divestitures during the bankruptcy of Nortel and Kodak; Twitter and Facebook when filing for their IPO saw payments by Twitter of $36M for acquisition of 900 patents to avoid a patent suit by IBM, and $550M from Facebook to Microsoft for 650 patent assets; Uber recently settled a trade-secret lawsuit against Google, agreeing to stop inclusion of the technology in question and offering an equity stake worth over $240M to Google; PWC's 2017 annual litigation study estimated that despite the downward trend of litigation in the United States in recent years, over 5000 patent infringement cases were filed in 2016, with the median award for damages over $8.9M;[7] The patent brokering market continues to post record volume of transactions, estimated at $296M in 2016 in the United States alone, based on an estimated brokered market of over 7500 patent assets.[8] In totality, these market signs should not be ignored by a board or director in an IP centric industry.

This disconnect between the market actions and mention of IP in internal governance priorities is perhaps a dilemma in practice: there is real risk and financial impact deriving from IP for businesses and shareholders, suggesting there should be a clear requirement for boards to

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[6] Deloitte, *Directors' Alert. Through the eyes of the board: Key governance issues for 2015* (2015), citing *Ocean Tomo*, *supra* at 28 n 13.

[7] PWC, *2017 Patent Litigation Study* (2017) [*PWC*].

[8] Kent Richardson, Erik Oliver, and Michael Costa, "The 2017 brokered patent market – the fightback begins", IAM Magazine (January/February 2018) 8.

consider IP based governance topics to ensure the corporation is appropriately engaged on the topic. Yet a review of known legal decisions stemming from boards and management teams gives limited insight into the various board of director mandates that intersect with IP management topics, or suggests there is no IP discussion at all.

In response to the limited discussion on the topic, this paper will aim to answer a primary research question on IP and governance:

Question 1: Based on common law, literature, and known best practices, what are the top Intellectual Property related governance issues which boards and directors should consider?

In answering the question, this paper will do so within the following context: governance may be a broad topic to discuss, covering areas from corporate regulatory compliance to representing the interests of shareholders on behalf of the corporation. However, within this paper, the term "governance" will be more narrowly defined as Board of Director level decision making or Board of Director enacted policies, specific to intellectual property matters. As such the literature review, common law, and legislative reviews will be focused on legal and business IP related corporate impacts that a Board of Directors would be in a position to have interaction or influence over. Similarly "IP", or "Intellectual Property" may be broadly defined and generally relate to patents, trademarks, trade secrets, confidential information, copyrights, but the focus on the paper and application of research is on patents. In this paper "patent pools" [9] and other IP related business transactions (acquisitions, divestitures, enforcement, assignments) will be used as a proxy for governance analysis because pools and transactions provide a known

[9] Pools are generally created to support structured IP agreements between multiple patent owners to license their collective portfolios to others, or a corporate entity created to pool patents for the benefit of members.

corporate IP specific view on how IP related issues are addressed at the legal, policy, and business transaction levels.

To answer this question the paper will be separated into two parts. Part one is a case and literature review of IP related governance or board of director topics, including a survey of relevant statutory law. Drawing on governance and director decisions of patent pools the paper will conclude with the key IP based governance issues, and highlight where these topics intersect with typical IP transactions. Part two will answer the research question, and in doing so will detail the top governance topics that intersect with IP based transactions and director stewardship requirements. From these answers the paper will conclude with a proposal for an IP based governance framework of best practices for both private corporations or patent pools to utilize.

A. Theoretical and practical significance

There are practical business impacts IP will have on a corporation which concern the board. If there exists prominence of intangible assets for a corporation, at least in the United States there may be a fiduciary duty towards shareholders to monitor patent risk by another, mainly due to the increased costs and awards of patent infringement.[10] A portion of this duty may be due to the high costs associated with patents: the average cost of a United States based patent infringement case at $1.7M.[11] Infringement costs are also high, with the median damages

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[10] Ian D. McClure, "Accountability in the Patent Market: A Duty to Monitor Patent Risk from the Boardroom" (2014) 31 Santa Clara High Tech LJ 217 [*McClure 2014*]. The author notes at least in the US, as corporate fiduciaries, members of the board of directors have obligations to the corporation under a duty of care and duty of loyalty, both having patent context for the board to consider.

[11] American Intellectual Property Law Association, *2017 Report of the Economic Survey* (2017). The median overall cost for a patent infringement case with $1 million to $10 million at stake declined 47 percent from 2015 to $1.7 million in 2017.

award at $8.9M, and several recent awards over $1Billion.[12] Concerning board impact, this translates into board accountability for patent risk decisions, including providing information disclosures for shareholders relating to IP based information.[13] Information and assessment of financial options with respect to IP may also be a financial strategy that boards need to assess as strategic options. It is not unknown that IP assets may be used as collateral in debt financing, another strategic option for boards to consider.[14] For corporations, IP securitization can be done by public investment management firms such as Fortress Investment Group, who have contributed hundreds of millions of dollars towards IP financing by using the IP assets as collateral.[15] IP driven shareholder activism and sophistication around monetization of assets may also be a concern. In 2011 Technicolor sued private equity firm Vector Capital to terminate their governance agreement giving Vector Capital representation on the board. As a shareholder activist and board member, Vector Capital was pushing Technicolor to sell off their operating business and monetize the remaining patent assets, the Technicolor board disagreeing with their strategy.[16] Hedge fund shareholder activist Carl Ichan pursued a similar strategy with Motorola.

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[12] *PWC, supra*. A $2.5B infringement was awarded in Idenix Pharmaceuticals LLC v. Gilead Sciences Inc. although the award was reversed in 2018, with Merck planning to appeal.

[13] *McClure 2014, supra* at 227. There were at least two cases where over $1 billion damages was awarded that patent risk is a board issue. "Shareholders have filed ongoing derivative lawsuits against the company, board and its executives for, among other claims, breaches of fiduciary duties related to mishandling patent infringement, the patent infringement lawsuit, and, put simply, patent risk.".

[14] Federico Caviggioli, Scellato Giuseppe, and Elisa Ughetto, "Patents as collateral assets in the wake of the global financial crisis" (2017) online: <ssrn.com/abstract=3060689>. The authors identified over 8000 security interest agreement records registered between 2007 and 2010 in the USPTO Patent Assignment database. See also Chris Donegan, "Industry Report – IP finance: the asset class that fell from the earth" (20 May, 2015), IAM Magazine (blog), online: <www.iam-media.com/industryreports/Detail.aspx?g=9b5ac3a7-9514-4a99-85d8-a17b4f39bcd0> for a discussion on how IP (trademark, copyright, and patent) finance deals raised hundreds of millions for asset owners.

[15] Fortress Investment Group (NYSE:FIG).

[16] Jack Ellis, "The age of the IP-aware activist shareholder has arrived IAM-Magazine" (23 January, 2015), IAM Magazine (blog), online:< www.iam-media.com/blog/Detail.aspx?g=23a1e9df-7dc9-44ab-b29d-f7df48b01ef6>.

At one point Ichan owned over 11% of Motorola and advocated selling the patent portfolio, which he believed was worth more than $4B.[17] Hayman Capital Management hedge fund manager Kyle Bass was a different kind of IP shareholder activist impacting corporate value – his approach was an "activist short strategy", or short the stock and then file patent challenges in hopes of invalidating the corporations patents and depressing share value.[18] In other well publicized bankruptcy examples, Nortel's patents sold for $4.5B, and Kodak's for $525M, which along with demonstrating intangibles also have impact in managing bankruptcy and insolvency, IP also generates risk for the licensee of patents owned by a corporation in insolvency. In the context of M&A where a company owns a significant IP portfolio of value, there may be a need to ensure the board has obtained external professional IP advice on financial IP valuation, infringement risks, and strategic evaluation of any licensing arrangements or obligations.[19] Accordingly, when such IP rich M&A transactions generate IP related liabilities, which translate to a fiduciary duty, specifically to directors being informed about the financial value of both core and non-core IP, if the IP value is of significant material value to the company.[20] At least in the United States, the impact of fiduciary duty for boards in changing IP environment leads to the

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[17] Spencer E. Ante and Lauren Pollock, "Ichan Prods Motorola to Explore Patent Sale", *The Wall Street Journal* (22 July 2011), online: <www.wsj.com/articles/SB10001424053111903461104576460193712352476> Ichan's push was in response to the Nortel bankruptcy patent valuation and sale.

[18] Joseph Walker and Rob Copeland, "New Hedge Fund Strategy: Dispute the Patent, Short the Stock", *The Wall Street Journal* (7 April 2015), online:<www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408>. Bass raised over $700M in capital and operated for two years, focused in the pharmaceutical area. In one instance an IPR filing by Bass followed a 10% reduction in share value. See Julia La Roche, "Kyle Bass' War Against the US Pharmaceutical Industry Has Officially Begun", *Business Insider* (10 Feb 2015), online: <www.businessinsider.com/kyle-bass-filesfirst-ipr-petition-2015-2>.

[19] Ian D McClure, "Board Accountability for Patents. IAM Magazine", IAM Magazine (November / December 2015) 43 [*McClure 2015*].

[20] Elvir Causevic and Ian D McClure, "Effectively Discharging Fiduciary Duties in IP-Rich M&A Transactions" (2017) 14 Berkley Bus LJ 87, at 107 [*Causevic*].

recommendation of formal annual reviews by independent advisors on strategic options for the corporations, from the perspective of IP.[21]

In contrast, many boards and organizations promoting best practices do not direct attention towards stewardship of IP related assets and risks, thus the topic of "IP accountability in the Board Room" needs considered for governance best practices. But where can we draw best practices? There has been little in-depth literature discussion surrounding the accountability of boards with respect to IP. As well there has been little exploration of patent pool governance as a whole by legal scholars, mainly due to the lack of public information.[22] To address the literature gap, a survey of both general governance topics and review of known patent pool structures gives insights into the patent specific governance topics that both exist, and are deferred to management. From this we can assemble perspective of the IP specific governance topics a typical Board of Director should consider.

Part 1: Board of directors, governance, and IP

Governance is the process and structures that may be used to direct and manage and organization. Governance of a corporation defines the Board of Directors, directors,

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[21] *Ibid* at 117.

[22] Michael Mattioli, "Power and Governance in Patent Pools" (2014) 27 Harv JL & Tech 421, at 439 [*Mattioli*]. Mattioli reviews fifty-two patent license agreements between 1856 and 2013, concluding that the realities of patent licensing pool structures, and intent, may vary widely.

management divisions of powers, and thus provides systems to ensure an organization is managed to the benefit of the stakeholders.[23]

Boards have basic responsibilities that are established and shaped by regulation, common law, and promoted best practices. Such best practice governance guidelines entail board adopting a mandate including responsibility for strategic planning processes, implementation of risk management systems, and developing a set of corporate governance principles.[24] Regulation of boards allow for directors transact the business of the corporation, such as appointing officers, making by-laws, and transact any other business.[25] Although delegation and management of certain business affairs is often given to directors and management team, some delegation is restricted and board must be involved in by-law changes, financial statement approvals, declaring dividends, and purchasing or redeeming shares of the corporation.[26] Common law, regulations, and statutes outline the responsibilities with regards to, for example, fiduciary duty, duty of care, and business judgment required of the board of directors.

I. Research findings: IP related governance topics

Corporate governance practices are shaped in common law and legislation, which includes regulatory statutes and policies. While IP specific topics are rarely referenced in governance law and legislation, there is alignment with the practical IP related corporate impacts

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[23] See generally Deloitte Center for Corporate Governance, *The Effective Not-for-Profit Board*, (2013); Andrew MacDougall, Robert Yalden, and John Valley, "Canada", in Willem J L Calkoen, ed., "The Corporate Governance Review, 7th ed." (London, UK: 2017) [*Corporate Governance Review*].

[24] Ontario, *National Policy 58-201: Corporate Governance Guidelines, Rules and Policies*, (2005) 28 OBSC 5383.

[25] *Canada Business Corporations Act,* RSC 1985, c C-44, s 104 [*CBCA*].

[26] *CBCA, supra,* s 115(3) outlines the limits of authority.

a board may ultimately be responsible for, and by extension their fiduciary obligation to the corporation.

The research findings will be outlined as follows: First, section A will review general statute and legislative areas that overlap with governance and IP specific areas. Second, section B will be common law relevance to governance, and then linking to IP topics. This includes a detailed review on assignment transfers from research institutions. Third, section C is governance specific to known patent pools, and fourth section D is a summarized topic list of key areas based on sections A-C using IP based transactions as the application for governance guidance.

A. Statutes & legislative reviews

The survey of the statutes and other legislation is not meant to be a comprehensive view, but instead provide the a summary of the most relevant statutes to consider with regards to IP related issues corporate board of directors will intersect with.

The *Canadian Business Corporations Act* (*CBCA*) provides a statutory corporate governance framework for Canadian corporations.[27] Specific to directors, ss. 102-125 outline the duties requirements of directors and officers. Relative to patents and intellectual property issues a board of directors or governance structure may be considered under at least the following seven *CBCA* topics.

First, in responsibility to the corporation which may extend to any IP related affairs of the corporation: S. 102(1), there is statutory responsibility to the directors for management of the

[27] *CBCA, supra.*

business, as “directors shall manage, or supervise the management of, the business and affairs of a corporation.”. Second, in making business related transactions and decision, which may extend to any business transaction impacted by IP topics: S.104(1), where the directors may move forward with various business transactions. Third, in delegating authority to operate the business, which may extend to provide expertise IP advice: s.115(1): where delegation of managerial authority to an officer, managing director, or committee of directors within the corporation. There are, however, limits on the managing directors authority under s.115(3). For example, in relation to patent pools or IP transaction approvals that may require shareholder approval or a dividend issuance as a structured royalty payment to shareholders, a managing director may not submit to shareholders any question requiring approval of the shareholder under s.115(3)(a), or declare dividends under s.115(3)(b). Fourth, in disclosing conflict of interests, which may extend in IP related transactions or information: s.120(1)-(8) there must be disclosure of interest by the officers and directors. There is specific procedures for disclosure by directors, officers who are not directors, and procedures relating to disclosure provisions for material contracts or transactions that a director is involved in, yet they may not require a level of approval by a director. Likewise under s.120(5) there are disclosure requirements with respect to voting on a transaction where interest on the material transaction by the director may present. Fifth, in appointing officers to manage the business and associated transactions, which may extend to appointment of committees, officers or others to manage IP related transactions: s.121, directors may appoint officers and “delegate to them powers to manage business and affairs of the corporation,” notwithstanding the limits of s.115(3) officers may be appointed. Next, in ensuring the directors are acting honestly and in good faith, and in the best interests of the corporation: s.122(1)-(3), where there is a duty of care by both directors and officers, as well as a duty to comply with the *CBCA* and associated regulation, articles, or unanimous shareholder agreements. Seventh, there is a defense against liability of a director performing reasonable diligence and good faith: s.123(4)(b) a director is not liable under s.118 or s.119 if they have if they have relied in good faith on the reports of persons whose profession lends credibility to the statement made by the professional; s.123(5)(b) similarly states the director has complied with their duties under s.122(1) if they have relied in good faith on the reports of persons whose profession lends credibility to the statement made by the professional.

The *Patent Act* provides a grant of monopoly for an invention; a corporation may rely on in practice with regards the benefits of protection. As corporate interest in IP increases, there will be circumstances where corporations acquire patents, or enter into or technology transfer agreements as part of a purchase of a corporation, thereby expanding their benefit. Under s. 51 of the *Patent Act* an assignment may be void if the assignment is not registered as prescribed. Thus, acquisition of IP requires diligence around ownership to ensure loss of right risk is mitigated.

A patent owner may claim relief under s. 55 and s. 57 of the *Patent Act* for infringement, including injunctive relief, compensatory damages, accounting of profits, reasonable compensation, punitive damages or delivery up and destruction of the goods.[28] Board oversight should include risk exposure to litigation, which has the potential to negatively impact shareholder value if critical offerings of a corporation are suddenly prevented from being sold.[29] There is also risk of corporate rights, as under s. 65 and s. 66 abuse of rights by refusal to grant

[28] *The Patent Act,* RSC 1985, c P-4, s 55(1), 55(2), 57(1)(a), 57(1)(b) [*Patent Act*].

[29] See note 104 (injunction against Research in Motion) and note 105 (injunction against Microsoft Word).

licenses on reasonable terms that is found to be in the public interest of the public may risk the courts imposing a license, or revoking the patent.[30] As a result, corporations may need to consider oversight regarding patent related financial risk or loss of rights, and the impact it may have on shareholder value.

Bankruptcy related statutes that intersect with duties a director or board of directors may be involved in IP regarding the corporate impact of license agreements. Under s. 65.11(7) of the *Bankruptcy and Insolvency Act* (*BIA*) and s. 32(6) of the *Companies' Creditors Arrangement Act* (*CCAA*) there are provisions regarding a bankrupt licensor.[31] This may extend in IP related transactions where IP licenses as opposed to assignment transfers are utilized, both in and out licensing risks that may arise during insolvency of the licensor. The provisions state where the debtor is the licensor that the disclaimer of the IP license agreement during the term of the agreement does not impact the licensee's right to use the IP, provided they licensee continues to perform the obligations under the agreement. Again, for corporations relying on IP heavy transactions or reliance as a licensee, board oversight duties may be relevant to consider when in-licensing or out-licensing plans or activities are impacted by bankruptcy and insolvency.

Within Canada, patent pools would be assessed under the *Competition Act*, s. 45(4) and (5), as a conspiracy or arrangement between competitors.[32] As such, corporations engaging in patent pools will require diligence to ensure the pool or other IP driven mergers do not raise competitive concerns by the Canadian Competition Bureau.

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[30] *Patent Act*, *supra,* ss 66-66.

[31] *Bankruptcy and Insolvency Act,* RSC 1985, c B-3 [*BIA*]; *Companies' Creditors Arrangement Act,* RSC 1985, c C-36, [*CCAA*]. For case discussion and application see note 79 (Golden Opportunities) and note 80 (Royal Bank).

[32] *The Competition Act* RSC 1985, c C-34.

B. Common law

Common law surrounding general governance of corporations provides insights into the IP specific governance challenges that been discussed in courts, and how corporation involved in IP needs to consider these challenges. In general, the topics fall under a mix of commercial law, and intellectual property, with secondary topics within bankruptcy and insolvency law, employment & labor law, and contract law. Within commercial law there exists cases regarding a variety of director specific topics that intersect with IP: conflict of interest, corporations' best interest, duty of care, fiduciary duty, and the business judgment rule. The remaining area of IP law falls mainly under the two categories of rights to the assets, and patent infringement.

1. Duty of care, fiduciary duty, and the business judgment rule

There is a statutory fiduciary duty requirement for directors to act honestly and good faith.[33] There is an obligation for a director to provide a duty of care, diligence and sill that a reasonable person may exercise in comparable circumstances.[34] The directors must be diligent in supervising and managing the corporations affairs, and under s.122(1)(b) of the *CBCA* the directors will be held in breach of the duty of care if they do not act prudently on a reasonably informed basis, where decisions were made in light of all circumstances which the directors would have known, or ought to have known.[35] In *Peoples*, the duty of care was held to be an objective standard based on the factual circumstances. This permitted "prevailing socio-economic conditions" to be taken into consideration. Emerging best practices and standards puts

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[33] *Peoples Department Stores Inc. (1992) Inc., Re 2004 SCC* 68 [*Peoples*].

[34] *CBCA, supra,* s 122(1)(b); *Business Corporations Act,* RSO 1990, c B.16, s 134(1)(b);

[35] *Peoples*, *supra* at para 67.

pressure on boards improve the quality of decisions and governance practices, with "the establishment of good corporate governance rules should be a shield that protects directors from allegations that they have breached their duty of care."[36] Perfection is not demanded, but the business decisions must be reasonable in light of all the circumstances.[37] Within the context of patent rich corporations there exists complexity of financial modeling, invalidity and enforcement risks, and potential antitrust issues among other topics. As a director, establishment of governance rules to ensure qualified IP professionals are engaged is needed to show a reasonably informed decision while discharging their duties was made. More specifically, one way to address the duty of care is to utilize independent IP based advisors or sub-committees in assisting. However if a board determines IP issues, such as M&A in IP heavy transactions, litigation enforcement, or key license settlements be decided, they should ensure this assistance is done by competent advisors and professionals. Reasonable care must be exercised in selection of these advisors.[38] The issue in *Peoples* centered on the experience and profession of the advisor. It was held that under s.123(4)(b) of *CBCA* the director is not liable if they rely in good faith on "a report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by him.".[39] While the directors relied on the Vice President of Finance, and he had experience in administration and finance and was not an accountant, or listed in the profession, thus it was not enough to "correspond to the level of professionalism

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[36] *Peoples*, *supra* at para 64.

[37] *Peoples*, *supra* para 67 "In determining whether directors have acted in a manner that breached the duty of care, it is worth repeating that perfection is not demanded.". The adoption of the policy which is the issue at hand was made in the ordinary course of business, and there were other factors that contributed to the bankruptcy.

[38] CED Business Corporation (Ont 4th), vol 7, title 22, at VIII.8.(d).ii §794, citing *Routley v. Gorman* (1920), 47 OLR 420 (Ont CA) [*CED Business Corporation*].

[39] *CBCA, supra,* s 123(4)(b). *Peoples*, *supra.*

required to allow the directors to rely on his advice as a bar to a suit under the duty of care."[40] This is noteworthy for a patent centric corporation: patents intersect technology and the law in the business field – thus for boards their advisors must come from competent IP professionals. For instance lawyers with patent expertise, engineers with skill in the field of invention[41], and accountants with financial modeling or patent damage calculation expertise. While the directors cannot be experts in all aspects to make decisions, they may not rely in good faith from reports or advice from individuals who do not have the level of professionalism required as regulated. As well, the directors must ensure they take reasonable precautions sufficient to deter and detect any wrongdoing. If relying on senior staff, for IP management decisions the directors must ensure the staff are reasonably competent and supervise them to the extent the circumstances required, at least sufficient to deter and detect any wrongdoing.[42]

The *Peoples* decision distinguished the duty of care from the duty of loyalty, narrowing the application to the corporate perspective. A fiduciary duty, or duty of loyalty under *CBCA* s. 122(1)(a), requires directors to act in good faith and honesty, in the best interests of the corporation. In *Peoples*, the directors decided to allocate inventory in a cost savings measure between a parent company and its subsidiary. Both companies went bankrupt and it was claimed under s.122(1) the directors favored interests of one over the other. The issue concerned

[40] *Peoples*, *supra* at para 78

[41] Expert evidence during construction of a patent often falls to what a POSITA would have known at the time, or a person of ordinary skill in the art. See *Free World Trust c Électro Santé Inc*, 2000 SCC 66.

[42] *Distribulite Ltd v Toronto Board of Education Staff Credit Union Ltd* (1987), 1987 CarswellOnt 1032, [1987] CLD 1509, 45 DLR (4th) 161, at para 284. Where a credit union was run by members who did not poses financial expertise or sophistication, they were not required to deal with the daily operations or supervise staff below the level of the board, but had a duty to supervise senior staff. In this case the conduct of the board was in question where their failure to exercise reasonable control and supervision over senior staff members did not meet the standard of care set out to show negligence by the board.

fiduciary duty required to creditors. The courts held the directors acted in the best interests for the corporation in their business decision, and while directors should take creditors interests into account it is not an obligation to do so. The courts stated that in "resolving a conflict between a majority and minority shareholders, it is safe for directors and officers to act to make the corporation a 'better corporation'.", or in other words the fiduciary duty was to the corporation and not the stakeholders.[43] This fiduciary duty was further examined in *BCE Inc v 1976 Debentureholders (BCE)* where the courts stated that the director may be obliged to consider corporate stakeholders, but are still required to act in the best interests of the corporation.[44] Applying *BCE* and *Peoples* duty of loyalty requirements to the IP corporate environment, IP assets can be assigned and licensed, and patent pools may chose to acquire, divest, or encumber patents during the transactions. With various stakeholders involved, for example particularly in complex IP transactions such as the Rockstar Consortium which purchased the Nortel patent assets, the directors need to ensure they maintain their fiduciary duty to the consortium over the stakeholders they may represent.[45] In the context of board responsibility the fiduciary requirement of corporate obligations has ability to impact how oversight of IP based corporate transaction decisions occur, such as approving litigation enforcement that may be beneficial to the corporation but a determent to a strategic partner of a stakeholder.

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[43] *Peoples*, *supra* paras 41-42: "Insofar as the statutory fiduciary duty is concerned, it is clear that the phrase the "best interests of the corporation" should be read not simply as the "best interests of the shareholders". From an economic perspective, the "best interests of the corporation" means the maximization of the value of the corporation: see E. M. Iacobucci, "Directors' Duties in Insolvency: Clarifying What Is at Stake" (2003) 39 *Can Bus LJ* 398, at 400-1.

[44] *BCE Inc v 1976 Debentureholders*, 2008 SCC 69, at para 66 [BCE].

[45] The Rockstar Consortium was backed by major technology companies (Apple, Microsoft, Ericsson, Blackberry, Sony and EMC), purchasing the Nortel assets at bankruptcy for $4.5B.

Both *Peoples* and *BCE* also laid out the requirement regarding the Business Judgment Rule. The Business Judgment Rule apples to decisions made in good faith in the interests of the company and will shield directors from exercise of their discretion in decision making. In *Peoples*, the SCC states that business judgment must also be exercised in determination towards a decision.[46] Citing the *"Revlon* line" of cases from Delaware, the courts move to support the American approach for business judgment, based on the notion that directors must not be confined to a priority of rules, but rather the business judgment of what is in the best interests of the corporation.[47] Interesting, in citing the *Revlon* cases the SCC in *Peoples* stops short by neglecting to extend to the same depth the fiduciary duty that may involve for directors for business judgment decisions, which is applicable in IP business scenarios. Under *Revlon,* directors for United States corporations are now having the burden of proving they acted reasonably and were adequately informed, with the effort and discretion on the exploration of the topic, as compared to the specific of decision.[48] This implies perhaps for Canadian corporations, a lower threshold than *Revlon* in defining reasonable actions and informed decisions suggesting compared to *Peoples*, and as a result there may be flexibility in where the information to make an

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[46] *Peoples*, *supra* at para 65. Citing *Maple Leaf Foods Inc v Schneider Corp.*(1998), 1998 CanLII 5121 (ON CA), 42 OR (3d) 177, Weiler JA stated, at 192: "The court looks to see that the directors made a *reasonable* decision *not a perfect* decision. Provided the decision taken is within a range of reasonableness, the court ought not to substitute its opinion for that of the board even though subsequent events may have cast doubt on the board's determination. As long as the directors have selected one of several reasonable alternatives, deference is accorded to the board's decision. This formulation of deference to the decision of the Board is known as the "business judgment rule".

[47] *Peoples*, *supra* at paras 86-88. Citing *Revlon, Inc v MacAndrews & Forbes Holdings, Inc*, 506 A 2d 173 (Del 1986).

[48] *Causevic, supra* at 109 notes in M&A and other critical corporate events, the board must adequately informed. "Under *Revlon*, the directors now have the burden of proving that they were adequately informed and acted reasonably. This advice typically cannot be obtained from traditional advisors without expertise in financial valuation of the IP or in considering strategic alternatives with respect to IP." Citing *Lyondell Chem Co v Ryan*, 970 A 2d 235, 242 (Del 2009) with respect to the effort and discretion of strategic alternatives compared to the substance of the decision.

informed decision arrives from – e.g., general IP advisors vs patent licensing specific advisors.[49] Regardless the business judgment rule impacts directors to consider the interest of shareholders, employees, consumers, and possibly government actors, while ultimately doing what is in the best interests of the corporation.

2. Conflict of interest and delegation of content

Under a duty of loyalty and good faith, the *CBCA* requires directors to disclose interest or material interest with regards to potential or actual conflict between the director and a contract or transaction.[50] In practice there are at least two basic conflict of interest situations that the board must be concerned with: First personal conflict, and seconds is conflict that arises on behalf of a director or board member whose interests are not in alignment with the corporation. In either scenario, this conflict can be managed by the director withdrawing from active participation in the decision. Failing to declare interest properly may cause the contract or transaction in question to be voided.

Yet the potential for conflict may survive a resignation – a board of directors must ensure there is no conflict of interest even after a director in conflict resigns, and then later acts on the business opportunity.[51] In *Canadian Aero Services*, the courts held there is fiduciary duty even in a maturing business opportunity, and resignation "either secretly without the approval of the

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[49] The US vs Canadian business judgment requirements are relevant for patent entities to consider. Often patent pools may setup a US corporation or subsidiary to out-license IP for tax and jurisdictional enforcement purposes. Directors that sit on both the US and Canadian boards must be aware that the differing depth of directors requirements to not be in breach of their fiduciary duty will vary between jurisdictions. As such the same advisors to assist the corporation in Canada may not be sufficient to advise in US licensing.

[50] *CBCA, supra,* s 120(1).

[51] *Can. Aero v O'Malley*, [1974] SCR 592 [*Can Aero*].

company"[52] would preclude a director from acting on after the resignation as the fiduciary duty regarding conflict of interest survives the resignation. Intangibles such as patents have the ability to provide a monopoly for a corporation, and a director or other fiduciary having the potential for conflict due to business knowledge of the patent, such as validity or royalty knowledge, will still be in conflict after they resign and move forward into the other business opportunity.

In a supporting decision for this position, *Robbins & Meyers Canada v Torque Control Systems*, the issue surrounded the conflict of interest regarding a lawyer and if they were in conflict by drafting a patent application for a former client, then accepting a retainer from another for the purpose of invaliding it based on a change of employment to a new firm. [53] It was held there existed fiduciary duty of loyalty by a lawyer after termination of the solicitor-client relationship from accepting a retainer from another 3rd party for the purpose of invaliding the same patent. Again for directors, conflict of interest may survive to act on future business opportunities, even if the directors had previously addressed the situation by withdrawing from active participation in the decision.

Conflict of interest by experts or retained advisors may also be of concern to the board, by both corporations seeking advice and those providing advice. In *MediaTube v Bell Canada*, a patent infringement claim by MediaTube was impacted by Bell due to conflict of interest claims over MediaTubes counsel, Berskin & Parr, who also filed trade-mark applications for Bell.[54]

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[52] *Can Aero, supra* at 606.

[53] *Robbins & Myers Canada Ltd v Torque Control Systems* Ltd 2007 FC 957, 2007 CarswellNat 3188.

[54] *MediaTube Corp v Bell Canada* 2014 FC 237, 2014 CF 237, 2014 CarswellNat 2586; Bereskin & Parr had been working on 8 active trademark cases, and Bell had refused to waive conflicts arguing the involvement in the patent suit would undermine Bell's interests.

While the courts primarily addressed a lawyers duty of loyalty, and the motion was rejected, it raises an important issue for boards to consider: Does the corporate guidelines or diligence in hiring expert advisors include conflict of interest checks? Is there ongoing risk assessment for the corporation losing skilled advisors for one strategic topic due to assistance on another? MediaTube had been seeking more than $350M as a royalty in past damages[55], not an inconsequential number for either Bell to pay should they not be successful in barring MediaTube from their advisor of choice, or professional fees for the attorneys to collect in the process.

Conflict regarding board decisions may also arise between the benefits of one stakeholder over another stakeholders: In *Peoples*, the SCC states conflict of interest between stakeholders, there is no one set of interest that prevails and that "Everything depends on the particular situation faced by the directors and whether, having regard to that situation, they exercised business judgment in a responsible way."[56] Likewise, in *BCE* the facts outlined that the interests and expectations varied for the stakeholders, which required a fair resolution of conflicting interests. The SCC held that the conflict was resolved in a fair manner that reflected the best interests of the corporation, and that "[w]here it is impossible to please all stakeholders, it will be irrelevant that the directors rejected alternative transactions that were no more beneficial than the chosen one."[57] Boards with oversight of IP based organizations, particularly patent pools, may need to consider the demands of various patent stakeholders due to conflict of interest. In these

[55] *MediaTube Corp v Bell Canada*, 2015 CarswellNat 3221, 2015 CarswellNat 3222 (Motion Factum, Written Representations of the Defendants).

[56] *Peoples, supra* at para 84.

[57] *BCE, supra* at paras 81-83.

cases, *Peoples* and *BCE* allows the board to implement flexibility in pool decision making to look after the interests of the corporation first and, for example, not be required to discount the weight of one large patent stakeholder over a smaller patent stakeholder if a conflict exists between the two.

Conflict of interest situations surrounding IP topics may be complex to manage in practice. In patent pools there will be instances with multiple patent owners may have conflicting business benefits regarding pool enforcement in the industry through litigation, or even in acquisition of patents from one of the stakeholders for the use by the pool. Further, given the increase in the IP marketplace transactions in the past years[58], it is not inconceivable to consider IP savvy board members may be in a position to have or be aware of IP sales opportunities either through alternative businesses endeavors outside of their board role, or be impacted by the asset transaction as a stakeholder. In at least these situations it will be incumbent on the governance structure to set relevant conflict policies, such as a Standard of Business Conduct Policy, to either outline in the board of director requirements for avoidance of conflict of interest, or provide a formal employee Conflict of Interest Policy.[59]

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[58] Kent Richardson, Erik Oliver, and Michael Costs, "Inside the 2016 Brokered Patent Market", IAM Magazine (January/February 2017) at p34-46 [*Richardson*]. Patent Purchases in 2016 estimated $11B of patent packages with over 86,000 assets were transferred in 2016 alone.

[59] For example, HP has Standards of Business Conduct or Conflict of Interest Policies for employees and the Board of Directors. HP Corporate Governance Guidelines states "Directors are expected to report any possible conflict of interest between the director and HP or any violation of the Standards of Business Conduct to the Chairman, or Chairman of the NGSR Committee, who will review the matter and take appropriate action". See HP Development Company *Standards of Business Conduct* (February 2017), online: <h30261.www3.hp.com/~/media/Files/H/HP-IR/documents/sbc-dropdown/sep-2017/sbc-english-external.pdf>. See also HP Development Company, *Corporate Governance Guidelines* (November 2017), online: <h30261.www3.hp.com/~/media/Files/H/HP-IR/documents/others/2017/corporate-governance-guidelines-updated-11-14-17.pdf>.

Conflict may also arise in royalty determinations, as some boards decision are to set royalty rates and revenue sharing. Where conflict arises the director should consider deferring to a separate sub-group, or the remaining board of directors who do not have the conflict.[60] This approach is seen later discussions where several patent pools defer to sub-committees to structure patent transaction.[61] Regardless, if a director is found to be director of two corporations that may be entering into a contact arrangement, said director may be in conflict and disqualified from voting on the arrangement.[62] Independent patent pools often retain directors from various corporations, which brings this issue forward as an IP related governance issue to monitor.

Delegation of powers and day to day activities to non-directors may be done within limits.[63] A board of directors may appoint a managing director to delegate their authority to, where they must exercise their powers for the benefit of the corporation.[64] A director may rely on the manager of day to day operations, if they believe them to be honest.[65] However the extent of reliance may be limited to the facts, and the directors are expected to take reasonable steps to ensure there is no wrongdoing by the managers.[66] As will be outlined later, there are many IP related pools which delegate decisions to committees or senior management both to avoid conflicts of interest as well as to ensure there are experts performing adequate diligence and

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[60] *CED Business Corporation, supra* at VIII.4.(h).(i) §722. Citing *Pente Investment Management Ltd v Schneider Corp* (1998), 42 OR (3d) 177 (Ont CA). "§722 A common method for alleviating concerns that a conflict of interest exists between directors, who may be major shareholders, and the interests of minority or non-voting groups of shareholders, is the creation of a special committee from among the independent members of the board of directors who do not have a conflict, to tender advice and recommendations."

[61] For further discussion see, *infra,* Section C, SIG and One Blue MPEG LA examples.

[62] *Gray v Yellowknife Gold Mines Ltd* (1947), [1948] 1 DLR 473 (Ont CA).

[63] *CBCA, supra,* s 115(3) outlines the limits of authority.

[64] *Mid-West Collieries Ltd v McEwen* (1925), [1925] SCR 326 at 299.

[65] *Revelstoke Credit Union v Miller* [*1984*] 2 WWR 297.

[66] *Distribulite Ltd v Toronto Board of Education Staff Credit Union Ltd* (1987), 62 OR (2d) 225.

providing strategic IP alternatives for the board to consider. Delegation of powers intersects with other director duties. For IP rich transactions, specifically M&A transactions where IP is critical, there may be director liability regarding the M&A diligence and strategic alternatives discussion, and delegation of powers to competent and independent advisors may be required to meet a duty of care.[67]

3. Ownership of assets: bankruptcy and IP risk

As IP is an asset class, bankruptcy and insolvency has the ability to impact corporate risk management. A debtor of the corporation may not have rights the economic value in the IP for an exclusive jurisdiction after bankruptcy.[68] In the Nortel Networks bankruptcy, there was a question of patent ownership and license after the sale of the IP to Rockstar Corporation for $4.5B, and subsequent proceeds allocation to the various debtors. Nortel Group's ultimate parent holding company (NNC), had subsidiaries NNL (Canadian operating company), and NNI (United States subsidiary). Under a Master Research and Development Agreement (MRDA), NNL's had legal ownership of the patents, and it had granted exclusive licenses to other Nortel subsidiaries in exclusive territories, including NNI who was also known as the Licensed Participant. Bankruptcy proceedings were filed by both NNI in the United States, and NNL in Canada, along with other subsidiaries in their local jurisdictions. The courts recognized that under the MRDA wording, that NNL owned legal title to the technology[69], and thus the Licensed

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[67] *Causevic, supra*.

[68] *Nortel Networks Corp (Re),* 2015 ONSC 2987.

[69] *Ibid,* at para 81.

Participant (NNI) did not own the economic benefits of the residual IP.[70] While the courts decision focused on the contractual interpretation of the MRDA wording, specifically the meaning of the "exclusive license" text as drafted, it demonstrates there exists risk for boards to consider when the corporation is structuring patent pool or royalty frameworks that rely on licensed assets, in place of actual assignments. Where licensed assets compared to assigned assets are necessary, appropriate diligence by directors on the terms and terminology of agreements may be needed to meet a duty of care. It is not uncommon for large corporations to structure MRDA type contracts for the benefit of transfer tax purposes, allowing the multinational to benefit from high skilled R&D jurisdictions while paying low corporate taxation rates in another. This suggests while diligence on patent agreements are required, assignment structures impact a wider topic than just bankruptcy concerns, spanning stewardship of corporate taxation and material IP litigation enforcement risks.[71]

In triggering of bankruptcy or insolvency by a patent owner the bankrupt licensor's property, the IP will become vested in the trustee in bankruptcy.[72] At least in Copyright this raises the concern where a trustee can take the licensed copyright and try subsequently re-assign the IP, which may now be free of limitations by the new owner.[73] However there is also considerations under the *BIA*, where the contractual agreements may be rejected, or disclaimed,

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[70] *Ibid,* at para 6. Eventually the courts It was held the MRDA did not govern allocation, rather the valuations were set out based on business lines sales as it was found that the MRDA as interpreted did not deal with allocation rights during insolvency at this scale, and NNL was unjustly enriched by being entitled to all of the proceeds of sale, at para 200.

[71] For further discussion of applications see, *infra*, notes 156, 157.

[72] *BIA, supra,* s 71(2). See aff'd *Wilson Lighting Ltd (No. 2), Re* (1977), 1977 CarswellOnt 100, 25 CBR (NS) 4 (Ont SC), where the trustee was entitled to sell the patents.

[73] E. Richard Gold, "Partial Copyright Assignments: Safeguarding Software Licensees against the Bankruptcy of Licensors" (2000) 33 Can Bus LJ 193.

which would apply to intellectual property agreements.[74] As a result a disclaimer may not prevent an original licensee from using the licensed intellectual property, meaning "if the trustee or debtor sues the licensee for infringement, the court should disallow the action, just as it would have done if the action had been brought outside of bankruptcy."[75]

For board of directors this risk can be seen in at least two ways. For corporations entering into contractual license agreements, oversight may be necessary to ensure diligence meets the required duty of care surrounding IP transactions with regards to licensed structures.[76] As in *Nortel*, reliance on contractual terminology to ensure in the event of bankruptcy that economic interests in the IP sill reside with the relevant parties and debtors in question may be a necessary point of diligence for boards to query. Second, for potential owners, not only do corporations need to ensure actual assignments are transferred, directors may need to ensure they are done so in accordance with the at least s. 51 of the *Patent Act*.[77] Thus, in choosing assignments over IP licenses, there is still risk for the corporation that the assignment may later be found void. As such it may be suggested that to meet the duty of care to the corporation, board of directors may also be required to ensure diligence or provide assurances from management that assignments are transferred in accordance with the statutes, and to do so at minimum for IP critical asset transactions.

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[74] Anthony Duggan and Norman Siebrasse, "The Protection of Intellectual Property Licenses in Insolvency: Lessons from the Nortel Case" (2015) 4 Penn St JLIA 489, at p 499-500.

[75] *Ibid*, at 502.

[76] For a deeper discussion on mitigation of IP risks in anticipation of bankruptcy issues in the United States see Nader A Mousavi and Andrew G Dietderich, "IP deals meet bankruptcy: what every IP professional needs to know", IAM Magazine (May/June 2015), 69-76.

[77] *Patent Act*, *supra*, s 51.

Without diligence corporations that engage in a license may be faced with the risk that the contractual enforceability of the license may be terminated by either the trustee or the licensors, a board risk management concern. It will be noted the risk is relative in part to new provisions in the *CCAA* and *BIA* – under the *CCAA* S.32(6) and *BIA* s. 65.11(7) there exists special provisions for IP rights party to an agreement, which included enforcement of an exclusive use, are still granted as long as the party continues to perform the obligations in the agreement.[78] Yet where court ordered receivers, the *CCAA* and *BIA* intellectual property provisions are not applicable.[79] In the *Golden Opportunities* case, the court-appointed receiver and the debtor applied for approval of the sales of assets, seeking an Agreement & Vesting Order where the patent assets were free and clear of encumbrances, except those permitted by the sale agreement. Third party licensor YBCI had a contractual agreement with Golden Opportunities to license the IP, and objected to the draft Vesting Order by claiming under both the *CCAA* s. 32(6) and *BIA* s. 65.11(7) that there was a special provision and prohibition for disclaiming an agreement to the IP in question. Confirming that the license is a contractual right, the courts noted *CCCA* s. 32(6) and *BIA* s. 65.11(7) do not apply to court-ordered receivers and following *Royal Bank of Canada v Body Blue* the licensees rights are purely contractual.[80] In summary, depending on the critical position of technology licensing to a corporation now owned by a receiver, risk management processes by a board may be required. If a receiver wants to disclaim a license, they may have the rights to, which may preclude the licensee from continuing to

[78] *CCAA, supra,* s 32(6) and *BIA, supra,* s 65.11(7).

[79] Golden Opportunities *Fund Inc v Phenomenome Discoveries Inc,* 2016 SKQB 306 (CanLII) *[Golden Opportunities]*.

[80] *Royal Bank of Canada v Body Blue Inc*, 2008 CanLII 19227 (ON SC) [*Royal Bank*].

practice and use the patented and licensed technology – a potential impact to shareholder value or risk to the corporation.

4. Ownership of assets: transfer of rights involving research institutions

There has been an increase in patent transactions in recent years.[81] Recently the Canadian Government addressed IP and technology transfer investments, typically from research organizations to industry, recommending that the Government of Canada increase IP transfer activities, by "renew[ing] and expand[ing] funding allocated to programs supporting technology transfers between post-secondary institutions, (universities, colleges and polytechnics), and Canadian enterprises".[82] This was acted on in the 2018 Canadian Government budget in part with a $4.5M earmark to creating an IP Marketplace.[83] In this way policy intersects with university IP commercialization, a topic of relevance for board members. Moreover, priority in technology and the associated IP transfers may bring with it the rising topic of risk management for boards to consider, particularly as many technology transfer agreements intersect with various IP policies of research institutions. However, there is limited university technology transfer specific Canadian cases to rely on that deal with board and governance related IP policies. Those that do exist tend to be fact specific, and are linked to issues that are not primarily IP centric: Collective agreement and bargaining, employment law, contract law, and limitations of judicial reviews around ownership or license disagreements. Nevertheless, all carry

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[81] Antonio De Marco, Scellato Giuseppe, et al, "Global markets for technology: evidence from patent transactions" (2017) 46 Research Policy 1644-1654. Based on US assignment transfers 2002-2012. See *Richardson, supra*.

[82] Canada, Parliament, *Standing Committee on Industry, Science and Technology. Intellectual Property and Technology Transfer: Promoting Best Practices*, 8th Report, 42nd Parliament, 1st Session, at 32-33.

[83] *Budget 2018, supra.*

topics of importance for IP heavy corporations, such as ensuring a legally enforceable transfer of an asset right from a research institution to a pool or other corporate entity for commercial use.

There exists corporate risk to be managed surrounding breach of contract and voided assignments of transfer. Researchers advocating recognition by a third party owner of rights that occur after transfer of ownership will be limited in reliance the *Patent Act* or *Copyright Act*.[84] In *Balanyk v University of Toronto* the courts provided guidance that may be relied on by owners for inventor reputation, a contractual point ultimately contested by the ultimate patent owner. Balanyk claimed breach of contract and void assignment as license agreement from the University to a third party, as the third party had not provided inventor recognition in marketing literature.[85] There was no duty by the new owner to protect his reputation as an inventor by linking his name with the patented invention and marketing literature that the inventor could claim by the *Patent Act*. For boards with oversight of complex IP transactions, this provides some relief against inventors seeking recognition, yet raises the general issue regarding the level of diligence may be required for post-acquisition contractual requirements that carry forward with the original asset transfer.

Voided assignments of transfer can also impact true patent ownership, a topic which could alter the ultimate IP transaction value that would otherwise be relied on by the corporation. Many university research policies dictate the inventor is under obligation to disclose an invention. Ignoring obligations may not negate ownership, and royalties attached to such

[84] *Balanyk v University of Toronto*, 1999 CanLII 14918 (ON SC) [*Balanyk*].

[85] *Balanyk* , *supra* at para 157. There was an obligation to recognize the inventor "where economically reasonable to do so, in the licensee’s sole discretion”.

ownership.[86] In *Fardad c. Corp. de l'École Polytechnique de Montréal* the courts held that while there is an obligation to disclose inventions per the institution policy, there was no indication that an inventor must. The court awarded royalties for his portion of the income share because courts noted failure to do so was not fatal, and according to Dalphond JA "seems to me to be rather excessive if there is no evidence of harm to the appellant".[87] This impacts financial value of a transaction for directors to consider as corporate risk as future royalty streams may be corrupted.

Diligence and assurances of rights must be done where IP assets have ownership spread across multiple assignment policies. Many university policies have exceptions to inventor ownership based on the employee status. Ownership issues surrounding multi-institute relationships when the inventor had co-developed technology across two institutions was considered in *Fardad.* McGill and Polytechnique, each having their own IP policy. The courts held based on the facts of where the research contribution was made, he also should receive a portion of Polytechniques revenue share.[88] Employee status also played a role, where the courts also held the inventor was not covered by the criteria set out in Polytechnique IP policy to be a researcher, as he was an employee instead, and thus the IP policy for income sharing should apply. For third parties acquiring assets, this emphasizes that diligence must be taken to confirm ownership of inventions based on the inventors' status of researcher vs employee when assessing any ownership transfers. Institutional IP policies have a wide range of royalty policies and

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[86] *Fardad c Corp. de l'École Polytechnique de Montréal,* 2010 QCCA 992, 2010 CarswellQue 15613 [*Fardad*].

[87] *Fardad, supra* at para 93.

[88] The inventor was an employee at McGill but used the Polytechnique lab, and later a researcher at Polytechnique.

uncertainty in ownership rights may also require unexpected royalty payments in the future, which is a future risk for directors to manage and mitigate.

Technology transfer of IP rights into a corporation while also bringing the inventor on as an independent contractor also contains risks to be cognizant of. Corporations acquiring technology should recognize IP ownership may be at risk if independent employment contracts do not provide adequate consideration for inventive efforts. In *Techform Products Ltd. v Wolda* it was reviewed what consideration, implied or express, may be required for inventor ownership of the intellectual property for a contractor under continued employment.[89] Again, while simple transactions may not require board intervention or review, complex or high value IP transactions where the inventors begin to work at the corporation may generate risk. To address this, boards must ensure management has enacted IP or other hiring policies that will ensure IP rights and their associated intangible value remain with corporation.

Corporations may be protected from the original contractual ownership agreements between the inventor and the institution. *O'Brien v University of Guelph* considered how university owned inventions re-assigned to third parties may still be connected with original contractual terms in University IP agreements.[90] University of Guelph had received an assignment from O'Brien, and Guelph had relied on ownership based on their invention policy granting Guelph ownership and control, who in return had assigned rights to third parties. There

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[89] *Techform Products Ltd v Wolda*, 2000 CanLII 22597 (ON SC). The independent employment contract did not address the issue of ownership, but an Employee Technology Agreement (ETA) was later signed by the contractor, which in consideration for employment for a period of time did give assignment for any inventions what were made while employed by the company. Court of Appeal for Ontario held that Techform had provided sufficient consideration with the ETA via continuing employment well beyond the one year, and the ETA was binding.

[90] *O'Brien v University of Guelph* (1996), 1996 CarswellOnt 4312 (WL Can), aff'd 1997 CarswellOnt 1307 (WL Can) [*O'Brien*].

was an ownership claim against Guelph and the third parties by O'Brien. Clarke J dismissed the actions against the third parties, noting remedies were available between the individuals in original ownership contract - only O'Brien and Guelph. In addition, O'Brien had asserted ownership was transferred under the promise of tenure, and it was perhaps signed under duress. The courts did not rule on the question of transfer under duress except to indicate there was enough evidence to allow a motion against the Guelph to proceed. The impact on a directors or officers monitoring any transfers of IP rights for a corporation is that transfer of IP ownership rights from an institution may not extract the institution from original contractual issues with regards to institutional IP agreements, but would shield the corporation providing remedies to the inventor. Nevertheless directors must have assurances that diligence on inventor assignments re completed to ensure the ownership transfer was not done under duress, clouding ownership. As noted earlier, loss of IP rights may have the potential to be a point of financial and strategic risk for the corporation.

Corporations that enter into 3rd party agreement with research institutions need to ensure any transfer of IP rights will not be damaged due to employment and labor issues. As an illustration, Google recently contributed $5M to the Vector Institute, an Artificial Intelligence (AI) initiative, and similarly Microsoft invested $1M at McGill University. With these third party research agreements often comes a transfer of IP assets by key researchers.[91] There is no harmonized IP policy in Canada regarding research institutions, and while such a transfer may be acceptable one institution, it may not be permissible in another. There may be grounds for filing a successful grievance if circumvention of a transfer of IP rights via a one-on-one negotiation

[91] Author's review of key researchers employed by research institutions, as compared to assignments of invention to the funding corporations.

even though inventor rights are not in the Collective Agreement, indicating contractual labor rights of an inventor may supersede patent ownership policies.[92] In *University of British Columbia Faculty Assn v University of British Columbia* a professor had refused to sign a specific IP agreement for content creation of online course materials, giving ownership to the University. This was contrary to the University's policy that vested ownership to the creator. The professor filed a grievance after his refusal to sign triggered removal from the assignment, claiming the University was negotiating away IP ownership rights to demand ownership or assignment on an individual basis, contrary to the bargaining unit. Noting that the copyright ownership was part of the conditions of employment and the union had exclusive bargaining authority to negotiate ownership rights, the grievance was upheld by the court. Directors entering into high value negotiations for IP rights should ensure their request for ownership does not impact other inventor or creators labor rights offered to them by the institution.

There are also implications for corporations that later find the initial assignment of the IP in question challenged by the inventors, a situation the corporation will have little practical ability to control the outcome. To mitigate risk, directors that are engaged with IP business transactions of asset transfers should be diligent to ensure the original inventor rights were respected. Inventor rights may rely on both the inventor employment status and arbitration clauses in institutional or labor policies.[93] Under *Bansal v Stringam* the courts considered if judicial review is available with respect to a decision of a private consensual arbitrator based on

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[92] *University of British Columbia Faculty Assn v University of British Columbia* 2004 CarswellBC 1622, [2004], 125 LAC (4th) 1, BC Arbitration Bd No 39, 76 CLAS 204. The grievance was upheld because UBC tried to obtain copyright assignment through negotiations with faculty members. Issue was about direct "one-of" negotiation, not the actual IP rights itself.

[93] *Bansal v Stringam*, 2009 ABCA 87 (CanLII).

employment status of a researcher. A researcher claimed co-ownership of an invention, and the university deferred the decision to a Patent and Licensing Committee, the Committee later rejecting the claim. An appointed Arbitrator agreed with the Committee. The issue was could a judicial review set aside the decision of the Committee and Arbitrator. The court held that judicial review was not available in relation to this private ownership decision, as the researcher was not a unionized employee that could benefit from a judicial review that would have been available against a labor arbitrator if he had been under a collective agreement. Corporations entering into technology transfer agreements who are relying on institutions internal committees or private arbitrators to validate ownership may or may not subject to judicial review, yet this position will be dependent on the inventors employment status. In practice, this uncertainty in ownership has the potential to cause uncertainty in commercialization rights and revenue for the new owner, a risk for the corporation to account for.

Even post-acquisition of IP assets, later challenges to ownership may be linked to the arbitration clauses in license agreements struck by the corporation and the institution, avoiding a challenge of invalidity under the *Patent Act*.[94] In *University of Toronto v John N. Harbinson Ltd*, triggering an inventorship challenge via arbitration to resolve a license agreement dispute is acceptable and does not require a *Patent Act* challenge to title.[95] Harbinson claimed a breach of contract, seeking damages for breach of inventorship warranty via the arbitration clause, yet did not seek remedies or invalidation of the patent under the *Patent Act*. The courts held the dispute could trigger the contractual arbitration clause as the claim was with regards to alleged

[94] In practice, the business risk of invalidation of a patent is higher than loss of the asset in arbitration. Invalidation removes the ability to utilize the asset, while a loss of the asset during arbitration results in wider strategic options to consider for a corporation, including re-acquisition.

[95] *University of Toronto v John N. Harbinson Ltd*, 2005 CanLII 47089 (ON SC) [*UofT v JNH*].

misstatements, not a challenge of ownership under the *Patent Act*.[96] The decision emphasizes that ownership rights which are created by patent statutes, may be settled by arbitration if specified in the license agreement, if no *Patent Act* claims or remedies are advanced by the cause of action. Directors must be aware of these risks in high value IP transactions, as a challenge in unclear ownership scenario will impact license agreements and potentially shareholder value.

5. The Patent Act, patent pools, and patent trolls

Considering IP related license or acquisition agreements, if patent assignments are transferred they must be done so in accordance with the *Patent Act* statutes. Under s. 51 of the *Patent Act* an assignment may be void if:

> "Every assignment affecting a patent for invention, whether it is one referred to in section 49 or 50, is void against any subsequent assignee, unless the assignment is registered as prescribed by those sections, before the registration of the instrument under which the subsequent assignee claims."[97]

In bankruptcy, an assignment may be null against a subsequent assignee unless it is registered appropriately.[98] Although a patent assignment must be done in accordance with the *Patent Act*, even prior agreements between inventors and the patent owner will be void if not registered, which may limit risk if this information was not discovered during the board or

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[96] *UofT v JNH*, *supra* at para 22. It was held that the *Patent Act* did not provide a "complete and exhaustive code regulating all claims of inventorship and ownership of inventions, nor does it provide a comprehensive set of remedies". The ownership of the invention involved a factual analysis on ownership and was a subject matter for arbitration.

[97] *Patent Act, supra,* s 51.

[98] *Koblensky, Re* (1969), 13 CBR (NS) 317 (Ont Bktcy). A patentee's trustee in bankruptcy was not the subsequent assignee under s 51.

management directed diligence process.[99] As presented earlier, if ownership is transferred under duress, there may be a question as to assignment of ultimate rights to a third party.[100]

Second there may be divisibility of the patent rights thereby putting limits to granting licenses without consent of the co-owners may encumber the IP, and would give entitlement for the co-owner to continue to practice the invention.[101] In *Forget v Specialty Tools* the co-owner of a patent was barred from selling their interest in the patent without the consent of the other co-owner. For corporations divesting IP as co-owner, it results in an asset transfer with limitations that should be addressed or the IP transaction may be at risk. In delegating authority and responsibility to directors or management, or diligence for corporate IP transactions to a committee or group of experts, there still exists the ability for the board to intervene on management decisions and exercise final judgment for matters that are material to the corporation.[102] As discussed earlier, while the boards may rely on the business judgment rule to say they have made an informed and reasonable decision to move forward with an IP based transaction, M&A or otherwise, for at least IP-rich deals there should be board level engagement of competent and independent IP advisors.[103] This would include ensuring appropriate oversight

[99] *Verdellen v Monaghan Mushrooms Ltd*., 2011 CarswellOnt 11612. Both the purchaser and his advisors conduced due diligence including information on the patents in question, but public information indicated the business being acquired held ownership interest in the patent rights, and there was no other assignment on record, despite the inventor claiming he had contractual rights to the invention via an oral and written agreement.

[100] *O'Brien, supra*. The courts did not rule on the question of transfer under duress except to indicate there was enough evidence to allow a motion against the University to proceed.

[101] *Forget v Specialty Tools of Canada Inc* (1995), 62 CPR (3d) 537 (BC CA).

[102] *Corporate Governance Review, supra*.

[103] *Causevic, supra* at 239, n 118-119. In discussion of the Hearing on Abusive Patent Litigation: HR 845, and the testimony prepared for the Members and Committees of US Congress by numerous corporations.

regarding diligence on valid ownership or rights under the *Patent Act* of any patent asset transaction.

In yet another consideration, infringement under the *Patent Act* has the ability to impact both the corporation's business activities and thus shareholder value. For instance, after losing a patent infringement trial Research in Motion (RIM) was facing an injunction that would have required RIM to discontinue service, but the case settled after a payment of $612.5 million USD.[104] Microsoft faced a similar injunction against I4I regarding Microsoft Word in 1997, ultimately resulting in a $300 million USD payment to I4I.[105] Amazon.com won a motion for a preliminary injunction against Barnes & Noble for their "one-click" patent in December of 1999.[106] Although it was later overturned and the case settled, the immediate impact resulted in Barnes & Noble needing to overhaul their website to remove their "Express Lane" shopping feature during Christmas shopping season. Despite these large payments that impact shareholder value and the boards of directors being charged with stewardship and risk management, there is little support in literature to indicate general infringement risks are brought to or reviewed by the board or there is active board oversight.[107] It raises the question, while in hindsight having directors engaged in discussion and oversight may have mitigated the risk and financial impact to the corporations, but what level engagement is practically required? Even without systematic oversight it is recommended where there exists risk where IP liability will damage shareholder value that "deference should undoubtedly be given to the experts on legal

[104] *NTP*, *Inc v Research in Motion,* Ltd, 261 F Supp 2d 423 (ED Va 2002).

[105] *Microsoft Corp v i4i Ltd Partnership*, 564 US 91.

[106] *Amazon.com, Inc v. Barnesandnoble.com, Inc,* 73 F Supp 2d 1228, 1999 US Dist LEXIS 18660.

[107] *McClure 2015, supra.* There is evidence indicating many corporations do have sophisticated patent risk management procedures, but not systematically at the board level.

matters in the legal division of a corporation with respect to assessing problematic patens identified in a freedom to operate search", and information reporting on this risk should reach into the delegated management team, if not the board of directors.[108]

Corporate losses for infringement may also occur under enforcement situations where patent owners are ordered to pay the legal costs of unfounded assertion.[109] In the recent *MediaTube* decision, while main issue surrounded claim construction, patent infringement, and patent validity, the courts addressed the issue of punitive damages and allocation of costs when there was doubt of the accuracy of the patent claims as the patent owner had asserted the patent "based on contortions of the claim in issue".[110] MediaTube was ordered to pay allowable costs, but elevated by a 50% penalty to reflect the weakness of the infringement case. For corporations asserting patents, there must be governance structures including litigation risk mitigation systems in place to ensure asserted patent rights will not result in additional financial penalties. Indeed as *MediaTube* demonstrates this can be of particular risk for corporations that are asserting patents outside their relevant business market and doing so with patents requiring generous claim interpretation to warrant infringement.

For patent pools or corporations structured for the intent of asserting patents for license fees, often referred to as non-practicing entities (NPE), it will be necessary to consider if there exists risks or challenges strictly based on the NPE characterization in the courts. There is no single position of NPE characterization against a corporation, as financial implications for a NPE

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[108] *McClure 2015, supra at* 240.

[109] *MediaTube Corp v Bell Canada* 2017 FCJ 6, 2017 ACF 6, 2017 CarswellNat 18 [*MediaTube 2017].*

[110] *Ibid* at paras 252-253.

will not impact cost consequences for asserting a patent, yet in contrast may be restricted in royalties they can claim. *MediaTube* directly addressed the issue of "patent troll" allegations, as an allegation of fraud or dishonesty, which would have additional cost consequences for the patent assertion corporation.[111] Locke J stated:

> "I observe first that the term "patent troll" means different things to different people. Some, like Bell, use this term to describe an entity that asserts patent rights it does not use. A less pejorative term is non-practicing entity [NPE]. Others, like the plaintiffs, view the term "patent troll" as connoting an entity that asserts patent rights that it did not develop and that are invalid and/or are asserted far beyond the scope contemplated at the time of the invention. … In my view, the plaintiffs are not patent trolls in the sense that this expression is generally used, and its use to characterize them was not warranted. <u>However, whether or not the plaintiffs are patent trolls is more a question of opinion rather than fact</u> [emphasis added]."[112]

The courts reasoned that the corporate intent of the patent holder did not support an allegation of fraud or dishonesty and accordingly cost consequences would not be applied. In addition, Locke J further stated that based on the facts of the case that MediaTube would not be awarded aggravated costs as a consequence of the "patent troll" allegation. Recall that patent rights provide a lawful monopoly to the owner, and under s. 55 of the *Patent Act*, the courts may

[111] Costs were claimed under Rule 400(3) of the *Federal Courts Rules*, SOR/98-106.

[112] *MediaTube 2017, supra* at paras 238-239. Interesting, in regarding a patent troll definition as opinion over fact, the courts neglected the opportunity to define how a troll or NPE would be assessed. This becomes important when considering the later *Airbus* position.

award compensation.[113] Compensation may be in the form of calculated royalties and consequently any material impact to corporate revenues or payments stemming from IP assets that arise due to a NPE designation have the potential to materially impact a corporation.

Despite Locke J stating there is no NPE cost consequence under Federal Court Rules, other cases have indicated there may be consequences during royalty calculations. *Airbus Helicopters v Bell Helicopter* held compensatory damages for a royalty payment may be based on a hypothetical negotiation at the eve of the first infringement, given the technology had market demand.[114] However in an *obiter dicta*, Luc Martineau J, suggested a NPE would have a lower royalty, as the value between manufacturers is different, stating:

> "It is recognized that patents serve the social interest if they provide not just invention, but innovation the world would not otherwise have. …. Therefore, the value of a patent lies in the ability of the patentee to exclude competitors and competition … This value differs from the license granted by a non-practicing entity, also known as "patent troll", who asserts patent rights that it did not develop or that it did not use (*MediaTube Corp. v. Bell Canada*, 2017 F.C. 6, [2017] F.C.J. No. 6 (F.C.) at para 238 [*Mediatube Corp*]). <u>While negotiating with such "patent troll" would rather point toward a lower royalty</u>, the circumstances of the present show that both Airbus and Bell, as world leading manufacturers in the aeronautical industry, would jealously protect their 'core technology' by filing patent applications respecting inventive and innovative new

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[113] *Patent Act, supra,* s. 55.

[114] *Airbus Helicopters, SAS v Bell Helicopter Texteron Canada L*tée 2017 FC 170, 2017 CF 170, 2017 CarswellNat 583 [*Airbus*].

technology, which will give them an important edge over competition [emphasis added]."[115]

Patent pools or other patent fund business model is centered on collecting patent royalties and therefore it cannot be understated that any legal implications impacting this business model carry risk for the board to consider. For corporations characterized as a NPE and where IP transactions or licensing revenue has the potential to be impacted, the courts leanings, however limited, require oversight to financial and strategic risk-taking as boards perform diligence on IP transactions and licensing approvals. For this reason strategic alternatives related to IP value assessments must be done, and may vary based on the use-case of any IP enforcement plans.

Specific issues related to patent pool rights have limited discussions in the courts. The *Patent Act* allows for a claims of abuse of patent rights, under s. 65(1), with remedies under s. 66(1) ranging from ordering a license to the revoking of the patent. There is no relief under the *Patent Act* for parties and the public where there has been abuse of patent rights by the formation of patent pools.[116] *Thermionics Ltd. v Philco Products* concerned the abuse of patent rights, with fact that the patents in question were pooled may have been an illegal combination, yet the facts did not effect the forfeiture of the statutory rights.[117] The result for boards to contemplate is that while risk may be limited for loss of patent rights under the *Patent Act*, it does not preclude IP

[115] *Ibid* at 150.

[116] *Thermionics Ltd v Philco Products Ltd*, 1941 ExCR 209, [1941] 4 DLR 670, 1 CPR 137 [*Therminonics*]. There is no penalty or abuse of patent rights for pooling, unless there is a conspiracy or intent to restrain trade detrimental to the public interests. *Thermionics Ltd. v. Philco Products Ltd* 1943 5 SCC (1943) aff'd, at 407, that an "illegal combination, assuming it to have been such, did not effect a forfeiture of the statutory rights under the patents".

[117] *Therminonics*, *supra*. The transactions may have been illegal and void based on the *Criminal Code* and the *Combined Investigations Act*.

transactions and licensing contracts by patent pools must be defensible under other statutes, such as the *Competition Act*[118]. Further, because directors can be criminally charged for conspiracy or bid-rigging under s. 45 of the *Competition Act*, they must ensure there is appropriate systems and expert advice to defend against conspiracy claims.

C. Governance topics in known IP environments

1. Governance and board powers of patent pools

Board mandate and directives, combined with a review of general patent pool specific business decisions that are required to be made, provide a governance structure examples that can be considered by board of directors. To discover IP specific board topics we can draw insight from these board limits and their operation from a patent pool corporate environment.

Board roles in pool based corporations and limits of powers may vary by each patent pool organization. As such for any patent pool governance model there exists various levels of board participation in the pool decision-making, and influence and interaction on IP specific responsibilities. To understand these responsibilities a survey of public information on pool structures outlines various limits and decisions of IP based boards was conducted. Because existing literature is strictly focused on patent pools or license programs, we must extrapolate information to identify the IP related challenges a board would have.[119] In this way pools can be

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[118] *The Competition Act,* RSC 1985, C-34.

[119]Governance structures have mainly been reviewed from the intent and impact of a patent pool, from the perspective of the pool as a mechanism to manage patents for a group. See generally David Serafino, “Survey of Patent Pools Demonstrates Variety of Purposes and Management Structures” (2007) Knowledge Ecology International, KEI Research Note 2007:6 [*Serafino*]; See also Harry Rijnen, “An Insider’s guide to patent pools”, IAM Magazine (May/June 2017) [*Rijnen*]. The survey is not meant to be comprehensive, but to the depth that it reveals the trends and options.

used as a proxy for IP transactions and by extension governance issues. Unfortunately, the research revealed governance structures of decision making and pool operations do not have public documents, or there is limited public information on the IP aspect of governance. Despite this limitation a review of some patent pool operational details allows observations to rely on for various governance or board considerations and decisions in various markets: aircraft manufacturing, radio, standard essential patents for ITC components, music copyright, and patented medicine pools.

There has been power of the Board to appoint individuals as part of a formal royalty arbitration process. In 1917 The Manufactures Aircraft Association (MAA) was formed in response to United States government policy objectives of both providing access to and lowering the litigation that was slowing production of aircraft down, a concern to the United States Government who was finding it difficult to procure airplanes from manufacturers who feared litigation from the active patent owners.[120] A patent pool was recommended in 1917 and backed by the United States Navy, with membership eventually consisting of almost all aircraft manufacturers that sold aircraft to the United States Government. For certain "exceptional" patents where compensation was in question, royalties were determined by a Board of Arbitrators, where the Board of Directors appointed one member of this Board of Arbitrators, another by the patent owner, and the third by both arbitrators.[121] This engaged the MAA board perhaps only indirectly in matters revolving around compensation impacting both stakeholders and shareholders when a new patent was added.

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[120] *Manufacturers Aircraft Asso v United States*, 77 Ct Cl 481, 1933 US Ct Cl LEXIS 277 (Ct Cl May 08, 1933).

[121] *Mattioli, supra; Serafino, supra.*

Board decisions may impact director interest representation. In 1919, in an effort for the United States Government to end foreign control over the United States radio industry, encouraged a national firm (General Electric) to purchase the foreign owned patents of relevance and form Radio Corporation of America (RCA) with AT&T, Telefunken, and Westinghouse. Concerning governance structures, RCA had limitations on electing directors or officer's that were not United States citizens, and limitations on foreign stock ownership. A board decision was made to invite President Wilson to nominate a naval officer to represent to the directors and shareholders the government's view.[122] Thus it is not unknown for a government employee to be invited by the board when the patent pool was created as a policy driven market solution for the benefit of the government.

Standardization pools have given insight into the additional board decisions. For example the 1997 Bluetooth Special Interest Group (SIG) was formed to license royalty free Bluetooth technology, with the goal of establishing a standard and giving access to the technology. SIG allows tiered membership classes, each with different costs and rights to join working groups and access for testing tools. Provisions for the only voting class, the "Promoter Members" were invited to sit on the board of directors, which is the oversight and steering group for the SIG.[123] Within this the board has the ability to appoint, remove, and replace directors as long as they are Promoter Members.[124] The board also has the duty to approval all committees and working

[122] *Serafino, supra* at 17.

[123] SIG, *Bylaws of Bluetooth SIG, Inc*. (June 2015), online: <www.bluetooth.com/~/media/files/membership/bylaws.ashx?la=en > [*SIG Bylaws*]. Similarly the 3G Patent Platform Partnership (1999) was formed from 19 telecommunication companies, who elect an international Board of Directors from the mobile companies.

[124] *SIG Bylaws, supra*, s 6.2.

groups, which in scope and operation serve at the pleasure of the board. Similarly, the MPEG-2 patent pool follows this model, where decision making on the inclusion of patents in the pool, and standard direction are handled by working groups.[125] From this we may establish the boards reliance on expert working groups to address key decisions in pool structures is a known governance model. The reliance of expert groups or administration committees is not new for other pools, including MPEG LA, One-Blue, and HEVC Advance pool structures.[126] Deferring decisions to a committee, such as the administration committee, while appointed by the board would remove governance and board decisions directly from the Board. In the case of the HEVC Advance pool structure, shareholders (patent owners / licensees) have influence on who sits on the administration committee, who in turn make decisions on critical pool decisions such as licensee voting rights, while the board only has influence on deciding the budget and the key hires such as the pool CEO.[127] In other pools, such as the One Blue and MPEG LA, other key pool decisions such as enforcement actions are made by the management and the administrative committee.[128] The intent of theses governance structures is to ensure not only the management and directors of the company are neutral, but also the management has the ability to make the best decisions for the pool without influence from licensees or other forces. As a result, effective board governance in pools remains focused on setting the mandate for the pool and setting the budget and CEO to execute against the mandate. While not explicit, this structure ensures that only the management has access to confidential sales information and other details which may cause increased antitrust and conflict of interest scrutiny for the board members.

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[125] *Mattioli, supra* at *448.*

[126] *Rijnen, supra* at 2.

[127] *Rijnen, supra*.

[128] *Rijnen, supra.*

Many public share-based organizations have addressed governing decisions on royalty sharing.[129] In some cases the officers of the pool corporation made decisions on dividend distribution and stock offerings.[130] While the board powers are not listed in this secondary research literature, the decision making of the officers indicates at least the dividend and stock calculations were done by the officers, not the board itself.

Pool decision making in copyright cases have also been documented. The American Society of Composers, Authors, and Publishers (ASCAP) licenses members musical copyrights by licensing users of music for public performances, either live or broadcast, and then distributing royalties back to members. The ASCAP members elect a "Classification Committee", where is responsible to determine royalties for members.[131] This implies while the board may ultimately approve the distribution, ASCAP governance is structured to have committees prepare documents, and the board only approve documents.[132]

Within pool structures it is a common theme that because the many pool deals with partnerships of competitors it is often the result that key decision making on topics are left to

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[129] *Mattioli, supra*. The author identified fifteen pools where stock rights that yielded dividends were exchanged for patent ownership

[130] *Mattioli, supra*.

[131] *Mattioli, supra* at 437.

[132] ASCAP, "ASCAP's Survey and Distribution System: Rules & Policies" (September 2015) online: <ascap.com/-/media/files/pdf/members/payment/drd.pdf>. The committees prepare the documents but the board approves. Also see *American Soc of Composers, Authors & Publishers v Superior Court of Los Angeles County*, 207 Cal App 2d 676, 24 Cal Rptr 772, 1962 Cal App LEXIS 1956 (Cal App 2d Dist Sept 17, 1962), at 799, "Further: 'It shall be the duty of the Classification Committees to determine the status of each member of the Society with respect to the share of the royalties to which he is entitled and the distribution of royalties directed to be made by the Board of Directors."

expert groups for recommendation, and impartial administrative committees. This approach supported by M&A deals with IP rich entities.[133]

Pools and Standard Setting Organizations (SSO's), such as the Institute of Electrical and Electronics Engineers (IEEE) often deal with Standard Essential Patents (SEPs), but may make IP decisions via formal policy changes. With respect to the issue surrounding reasonable and non-discriminatory (RAND) royalty rates for members that may be obligated to license their essential patents the IEEE announced the board had approved an IPR policy change that defined certain RAND definitions.[134]

Non-profit license organizations around patented medicine pools, such as the Unitaid's Medicines Patent Pool (MPP). MPP operates as United Nations backed public health organization working to provide affordable access to HIV, hepatitis C and tuberculosis treatments. MPP's Governance Board sets policies and strategies, monitors performance, and oversees work plans and financial matters. With regards to IP specific matters, review of the board decisions indicates they generally rely on Expert Advisory Groups for reporting on license agreement amendments or final license negation proposals to ensure they are consistent with MPP's mandate.[135] The Golden Rice Project is a humanitarian pool initiative that provides patent pooled technology access, with a free license for well-defined humanitarian operations in

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[133] *Causevic, supra* at 117. The IP landscape changes rapidly, and "may warrant an annual formal review of value and strategic options with respect to IP, performed by independent advisors."

[134] Ian D. McClure "Accountability in the Patent Market Part II: Should Public Corporations Disclose More to Shareholders?"(2016) 26 Fordham IP Media & Ent LJ 417, at 436.

[135] Author's review of MPP board decisions. Unitaid, "Resolutions and Minutes of the Unitaid Executive Board", online: <unitaid.eu/resolutions/#en >.

78 rice-growing developing countries for genetically modified (GMO) rice.[136] Comprised of industry experts, the Golden Rice Humanitarian Board is both responsible to give strategic guidance to the project, as well as provide the general decisions and advice on licenses for the IP in question.[137] Interesting, although the Golden Rice technology did not develop into a product for the market, it was later suggested the patent owners may have been willing to provide the Golden Rice at no cost if countries were willing to adopt United States patent regimes for the protection of other GMO crops.[138] This suggests the board and governance framework may need to expand pool negotiations they are responsible for to include non-pool stakeholders such as the United States State Department and other foreign government policy groups.

A survey of publically traded pool based corporations indicated general governance and board responsibilities, but few had IP specific statements in governance documents.[139] At best out of twenty publically traded IP-centric companies reviewed only one provided governance

[136] Golden Rice Humanitarian Board, "Golden Rice Project", online:<www.goldenrice.org/index.php> [*Golden Rice Project*]. Although there are questions as to its ability to successfully function, see e.g., Angelika Hilbeck and Hans Herren, "Millions spent, no one served: who is to blame for the failure of GMO Golden Rice?" (15 August 2016), The Ecologist (blog), online: < theecologist.org/2016/aug/15/millions-spent-no-one-served-who-blame-failure-gmo-golden-rice> indicated the patent owners were willing to license royalty free for a humanitarian license but in return the countries had to adopt US patent regimes to protect other GM crops. While no board specific comments, highlights board may have to help navigate governmental policies abroad for their mandate to be fulfilled.

[137] *Golden Rice Project*, *supra*. See Frauke Rüther, *Patent Aggregating Companies: Their strategies, activities and options for producing companies* (PhD Dissertation, University of St. Gallen School of Management, Economics, Law, Social Sciences and International Affairs, 2012), at p150.

[138] Harwood D Schaffer and Daryll E Ray, "More Unresolved GMO issues" (2 July, 2016) Agriculture Policy Analysis Center (blog), online: <www.agpolicy.org/weekcol/834.html>.

[139] Twenty firms were reviewed. See Appendix C. Unwired Planet, Rambus, Tessera Technologies, RWS Holdings, and RXP Corporation had published corporate governance guidelines or principles, but they did not specific any IP specific provisions for the board to address. Others such as Interdigital, Inventergy, ITUS Corporation, Spherix, VirnetX, Vringo, Murgitroyd Group, Marathon Patent Group and Acacia Research Corporation had no published governance guidelines, only Committee Charters for topics such as compensation, audit, investment, and board nominations.

policies where IP matters were reserved for the board, IP Group Plc.[140] Listed within IP Group Plc's governance documents for "matters specifically reserved for the Board" includes "Prosecution, commencement, defense or settlement of material (by size or reputation) litigation, or alternative dispute resolution mechanism.".[141]

2. Patents and governance in mergers and acquisitions, and contract law

Mergers and acquisitions (M&As) can be complex, and may require special oversight by either the board of directors, or a management team. To mitigate corporate risk, boards must ensure there are experts to rely on surrounding IP specific diligence. For example, literature discusses the mechanics behind patent pool structures and contractual obligations that may arise during corporate M&A activities, via a "poison pill" clause.[142] Adoption of this "poison pill" or "viral patent" clause to be enacted during takeovers or patent assignment transfers may be present, which may alter the relationship of patent rights that the corporation enjoys, a topic that shareholders, managers, and board of directors should be aware of.[143] Pools may also have a governance rule that dissolves membership, impacting IP rights for engaged corporations.[144] Other contractual obligations in license agreements may also contain provisions that terminate

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[140] IP Group (LSE:IPO) is a IP business investing in technology companies.

[141] IP Group, "Matters reserved for the Board" (August 2014), online: <www.ipgroupplc.com/~/media/Files/I/IP-Group-V2/documents/investor-relations/corporate-governance/Matters%20reserved%20for%20the%20Board%20August%202014.pdf> at s12.

[142] Richard J Gilbert, "Ties That Bind: Policies to Promote (Good) Patent Pools" (2010) 77 Antitrust LJ 1 [*Gilbert*]. Corporations may adopt a "poison pill for a patent pool is a binding resolution in the event that a critical number of members chose to exit the pool and act as independent licensors of an essential patent", at 37.

[143] For example the LOT Network member companies agree to grant licenses to each other, with the license only triggering when the patent asset is assigned outside of the member companies and to a NPE. In effect this is a "poison pill" based on transfer of patents to a non-operating company.

[144] *Gilbert, supra* at 38.

licenses if the validity of the patent is challenged.[145] For boards this raises practical concerns where either M&A activities or patent validity challenges executed by management may put the corporation into a position of infringement – a governance risk that will have financial and strategic implications for a corporation.

3. Antitrust considerations

Antitrust regulation regarding patents, specifically patent pools, is a topic of risk mitigation for boards to consider. For instance anti-competitive concerns regarding patent pools has been a subject of review by the United States government, concluding that while cross licenses and patent pools have market efficiencies, but may also present competitive risks and raise antitrust concern.[146] These concerns would arise if there exists a license agreements that harm competition among corporations that would have been actual competitors, but for the license.[147] Within Canada, patent pools would be assessed for exceptions under the *Competition Act*, s. 45(4) and (5), as a conspiracy or arrangement between competitors, or agreements reviewed under s. 90.1 as agreements to lessen competition.[148] Even though it has been recognized that patent pools have positive effects on competition there are instances where use of IP actions may violate antitrust laws.[149] Consequently, pooling of patent rights that have the potential to generate anti-trust fines and impact shareholder value via penalties therefore must be

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[145] *Mattioli, supra* at 454.

[146] US, Department of Justice & Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), online: < www.justice.gov/atr/chapter-3-antitrust-analysis-portfolio-cross-licensing-agreements-and-patent-pools>.

[147] Carl Shapiro, "Navigating the Patent Thicket *Cross Licenses, Patent Pools, and Standard Setting Innovation Policy and* the Economy" (2001), online: <ssrn.com/abstract=273550>.

[148] Canada, Competition Bureau, "Intellectual Property Enforcement Guidelines" (2016), at 31.

[149] WIPO, *Patent Pools and Antitrust - A Comparative Analysis*, (2014).

managed using corporate compliance policies, and procedures, such as embedding IP diligence into an antitrust compliance committee. Further, the global complexity of IP pools requires board compliance programs to ensure patent pools or IP transactions do not contradict international agreements such as the World Trade Organization (WTO) antitrust agreements or other trade agreements.[150]

D. Addressing IP based transactions

Viewing board risks through the lens of typical IP pool transactions provides guidance to additional topics to consider. The purpose of a patent pool may vary widely: standardization of technology, implementation of government or social policy, or specifically structured to address a market inefficiency with access to technology.[151] As noted above, pool structures and intent may vary, yet there are a common set of IP specific decisions that many boards and executive teams must face in execution or administration of a pool: royalty and revenue sharing, dividend issuances, enforcement approvals, patent prosecution, taxation, and similar matters.

Pooling structures will have to consider the apportionment of royalties and revenue sharing with partners. This may include profit sharing formulas and negotiation with patent licensees or licensors with regards to pool opportunities. Moving beyond specific pool revenues on a royalty basis, the corporate perspective as a whole a dividend or stock issuances to the stakeholders may also be considered, giving the board the authority to set both time and set the

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[150] Recommended as a further stand-alone topic of research.

[151] See generally Andrew RO Watson and Angus Livingstone, "Intellectual Property Clustering" (2010), AUTM Technology Transfer Practice Manual, vol 4, 3rd ed. See *Serafino, supra,* for a summary of pool reasons.

distribution rate.[152] Certain pools require IP enforcement via infringement actions against a specific company, requiring approval decision on actions. For some these may be multi-party decisions – not only the board but the patent owner and other stakeholders in a pool.[153] In practice for some pools where pool administrators hold shares in the corporation this enables royalties to be distributed to the pool administrator as well as the licensee. Expanding pools may require continued assessment of joint ventures or partnerships, both of which require companies to approach for inclusion as a strategic growth issue for the pool, and the structure of the joint venture. Out of this drives antitrust and other competitive considerations of bundling rights, as well as refusal to license rights. For directors this has implications for conflict of interest, delegation of authority, duty to manage or supervise, and duty of care. As one example, the SIG pool the "promoter members" rights included a seat on the Board of Directors.[154] As a second example, the Open Patent Alliance, a pool formed related to the WiMAX 4G standard, provided a seat on the board for each investor company.[155] Where pools are assigned IP, along with the rights will come the decisions on prosecution-based matters: portfolio strategies, foreign filing decisions, maintenance fees, and other general prosecution requirements.

Generating and maintaining a thicket of IP for a pool portfolio comes at financial cost to the owner, and as such the impacts of budgetary decisions in prosecution matters may impact the legal protection secured both scope and jurisdiction, which in turn may define the operational

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[152] *Mattioli, supra* at 433, n 146. Some share based pool organizations have provided dividends as the mechanism for profit sharing.

[153] *Rijnen, supra.* In the HEVC Advantage pool, some prospective licensors were not able to commit to a mandatory participation in actions as they conflicted with corporate or university policies.

[154] *Infra*.

[155] Intel Corporation, Intel News Release, "Open Patent Alliance Formed to Advance WiMax 4F Technology" (9 June 2008), online: <www.intel.com/pressroom/archive/releases/2008/20080609corp.htm>.

limits of the pools despite its mandate. Even if the board or individual directors do not functionally deal in these operational matters, the prosecution decisions impact the pools ability to operate, and thus the overall corporate success of the pool. As a result board impacts will be at least duty of care, delegation of authority, and responsibility to the corporation.

Noted earlier, IP transactions and assignment structures have the ability to impact corporate taxation rates. Corporate patent strategies can be used to exploit and transfer IP income to low tax jurisdictions.[156] Reducing taxes using transfer pricing has corporate benefit for directors to consider approving, but also carries IP specific risks for the corporation that they may not be aware of. Transfer prices set low for tax purposes could potentially impact lower future damages, or even go as far as help defendants fight injunctions, argue for invalidity, non-infringement, and lower damages.[157] There may be risk irreparable injury cannot be shown if the transfer cost of IP was quantified at a low number. Board oversight of tax planning and implementation has significant financial risks, and should be part of corporate stewardship. In assuring that the delegated management or sub-committees have taken the appropriate diligence to ensure the corporate tax position is sound, IP rich corporations must also ensure they have not inadvertently created additional IP liability and their duty of care surrounding this intersecting topic has been met.

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[156] For a general discussion of impact see Nadine Riedel, Tobias Bohme, Tom Karkinsky and Bodo Knoll, "Corporate Taxes and Strategic Patent Location within Multinational Firms", Annual Conference 2015 (Muenster): Economic Development - Theory and Policy, Verein für Socialpolitik / German Economic Association, online: <EconPapers.repec.org/RePEc:zbw:vfsc15:112978>.

[157] Andrew Blair-Stanek, "Intellectual Property Law Solutions to Tax Avoidance (June 4, 2014)" 2015 62 UCLA L Rev 2.

In summary, for those involved in IP decision-making, this translates to key IP based governance issues surrounding duty of care and fiduciary duty, duty of care, business judgment, and avoidance of conflicts of interest. These topics intersect with various IP based transactions and corporate stewardship surrounding: litigation, enforcement approvals, acquisition, divestiture, M&A, licensing, asset valuation, asset taxation and transfer pricing, royalty and revenue sharing, dividend issuances, patent prosecution, antitrust, infringement, and freedom to operate for the corporation.

Part 2: From Issues to Best Practices within IP governance

II. Towards a an IP based governance framework

Directors who do not have adequate oversight of IP based corporate transactions or consider strategic IP options for a corporation may not be meeting requirements surrounding fiduciary duty, duty of care, business judgment, and avoidance of conflicts of interest. An analysis of the IP specific governance issues related to these requirements translates into recommended best practices that may be embedded into the fabric of corporate stewardship.

A. Understanding top governance issues for all boards

In practice governance issues intersect with various IP based transactions and corporate stewardship surrounding: litigation, enforcement approvals, acquisition, divestiture, M&A, licensing, asset valuation, asset taxation and transfer pricing, royalty and revenue sharing, dividend issuances, patent prosecution, antitrust, infringement, and freedom to operate for the corporation. Striking a balance for directors involvement in these issues – either directly or via management – may be a functional challenge to directors based on availability of time and expertise in the areas. Yet, for boards we can translate these IP transaction topics into the top IP related governance issues to consider. This answers our primary research question:

> **Question 1**: Based on common law, literature, and known best practices, what are the top Intellectual Property related governance issues which boards and directors should consider?

To meet director requirements under the *CBCA* and simultaneously address the top IP related governance issues, best practices support around stewardship of IP issues are recommended on IP topics related to financial risk and opportunity, reputational impact, shareholder engagement, corporate disclosure, and operational or strategic guidance of the corporation.

First, regarding financial based issues boards must monitor risk exposure of litigation or infringement damages due to violation of others IP rights, and other patent related financial risk. This includes risk of reduced royalty income linked to NPE characterization by the courts. IP financing options must be considered for the corporation, including debt financing opportunities and transfer tax positions, the latter impacting future royalty damage positions. Financial impact may also occur via risk of loss of IP ownership or licensed use and associated royalty revenue or freedom to operate. This could be a result of bankruptcy by licensee, licensor, or the assignee, or a result of contractual limitations, encumbrances, divisibility of rights, or risk of assignment challenges.

Second, regarding reputational, shareholder, and disclosure based issues boards must enable processes to ensure required oversight of IP transactions. Conflict of interest monitoring will apply to multiple stakeholders (patent pools, M&A, multi-party IP transactions), and potential IP transactions to be approved, if required for a decision by a director. Vigilance for activist shareholders lobbying to monetize assets to the determent of the boards defined strategy should be considered. Disclosure requirements may need reviewed to ensure material risk in IP transactions are discussed, as well as any other material IP risks for the corporation are disclosed. Regarding reputation, boards must consider the risks associated with asserting patents, or being named as a NPE.

Third, regarding strategic based topics, boards must consider the impact foreign government policy shifts will have on corporate plans. In addition, where pooling will be a function of the corporation, they must ensure corporate directives take into account antitrust risks. Strategic alternatives should be considered where there is high freedom to operate risks resulting in injunctions requiring discontinuing of key business offerings, which include loss of patent rights, either through invalidity, assignment challenges, or encumbered rights and other contractual limitations. M&A decisions should include strategic alternatives based on IP risk or reward. IP value assessments of corporate assets should be included as board discussions on strategic alternatives for the corporation, particularly where high value patent ownership exists. Finally, boards should assess conflict of interest impacts, requiring risk assessments for both conflict with expert advisors, and director conflict for IP specific transactions and monitoring post-director departures.

Focus on these governance topics considerations during either direct or indirect oversight should protect directors from allegations they have breached their duty of care, and provide a defense of reasonable diligence, and good faith, and in the best interests of the corporation. Reliance on delegation of content or the business judgment rule requires the directors have made informed and reasonable decisions, which for IP-critical transactions there should assurances from management that engagement of competent and independent IP advisors was done to avoid or mitigate any risk in the decision.

B. Proposed Framework: from issues to best practices

In viewing the IP governance issues through the lens of boards and individual directors we can define five general best "IP governance" practices: IP oversight, Code of IP conduct, director IP education, independent IP advisors, and scheduled IP risk assessments. When combined, these five topics encompass on all relevant IP governance framework topics required to successfully manage IP based risks and opportunities, as opposed to boards serendipitously addressing IP based requirements.

First boards are recommended to embed an IP oversight framework against the key areas of finance, reputational impacts, shareholder engagement, corporate disclosure requirements, and other operational or strategic guidance given to the corporation. The specific topics have been addressed in detail earlier but to review they generally focus on assessing these key areas against the following relevant topics of: IP litigation, enforcement approvals, acquisition, divestiture, M&A, licensing, asset valuation, asset taxation and transfer pricing, royalty and revenue sharing, dividend issuances, patent prosecution, antitrust, infringement or freedom to operate for the corporation. In addition, corporations based on a government crown model need to expand their consideration of implications of board appointments and experts to address and government stakeholders, sovereign immunity challenges, trade policy lobbying, and antitrust criticism.

Second, boards are recommended to enable these reviews via a "Code of IP Conduct" in a measured fashion, which will promote and enable active IP risk management at both the executive and director level of the organization. In practice a code of conduct may delineate the areas or financial risk limit where the executive team has full authority to execute on, and where the directors involvement and engagement is required. This Code of IP Conduct will also set the stage to ensure IP risk profile of the corporation is considered at the board and executive level. It is clear there is a general recommendation for stronger board oversight to increase both executive efforts in the area and IP risk mitigation for the corporation.

Third, boards are recommended to ensure adequate IP knowledge and awareness is embedded at the board level. For effective governance boards must be able to understand and act on the IP risk. It is recommended this best practice be operationalized by ensuring IP is a consistent topic director education in board materials or included in conduct requirements such as board performance measures.

Fourth, boards are recommended to engage IP specific advisors both proactively, as well as actively on ongoing IP topics. Having a board 'plan of action' with known IP advisors and experts ready for engagement will be necessary. Proactive engagement will help mitigate risk in the event of a key IP event for the corporation, such as litigation, bankruptcy of key license contracts, or other mission-critical corporate topics. Ongoing engagement ensures oversight occurs as the IP risk profile of the corporation changes. This includes conflict of interest checks for advisors against corporate interests as well as actively utilizing the IP advisors when board decisions are deferred to committees.

Fifth, boards are recommended to consider the best practices on a consistent basis via an IP risk discussion by the board. An annual formal review of the IP risk position of the corporation that has depth comparable to the IP requirements of the corporation in their marketplace. For IP rich corporations this review and update may be on a quarterly basis.

C. Addressing board resistance

With IP not directly presented as a top risk in many governance reports, boards may be reluctant to consider refocusing on IP and implementing these best practices. However the corporate risk, shareholder engagement concerns, and financial impact deriving from lack of IP oversight suggests there should be a clear requirement for boards to consider IP based governance topics as a top priority. At the very least, a minimum level of IP oversight should be enacted for directors to meet their fiduciary duty, duty of care, and pass the business judgment rule.

But what of the added effort to enact an IP governance framework and prepare additional materials for review, given existing board of director limits on time and focus? Lack of board involvement will carry risk and standardized oversight may be too burdensome, so is this reason enough to qualify resistance and keep IP bereft of board discussions? In addressing this hesitation there will be a question of optimal trade off to find the depth of best practices implementation to consider that all boards can follow. This answer will be different for each corporation, but one that should be discussed and agreed on by the board in forming the Code of IP Conduct – and setting the tone here can reduce the perceived burden while still bringing IP into the discussion. In fact, there is rationale for implementing the best practices but keeping the level of written and recorded discussion to a minimum, if the board considers future litigation a risk where scrutiny of the materials discussed or presented to the boards can be reviewed. If the materials are discoverable, or privilege is lost, detailed materials may generate additional business and litigation risk for the corporation. Seen from this perspective, the added effort to implement an IP governance framework may be in fact a minimal burden to bear.

Further, for a board with robust governance practices, many of the proposed best practices can be added as extensions to existing governance frameworks thereby reducing the perceived burden of implementation efforts. The Code of IP conduct may be an extension of a "Standard of Business Conduct". IP education may be an extension of existing education work, and offered by independent IP advisors who are also engaged to assist with scheduled IP risk assessments. For board members inexperienced in IP this provides not only the access to education, but also helps ensure they meet the duty of care as a director. In combination these extensions provide an efficient solution for enacting an IP governance framework against existing areas under oversight by the board or a committee.

III. Conclusion

Historically boards have prioritized non-IP issues as top governance concerns and a review of literature and law suggests this topic remains largely unaddressed by scholars. To address this research gap it was the intent of the paper to better understand top IP related governance issues and opportunities boards and directors should consider. It was identified IP is not a current board top topic, yet there is a dilemma in practice: there is real corporate risk, shareholder engagement concerns, and financial impact deriving from lack of IP oversight for businesses and shareholders, suggesting there should be a clear requirement for boards to consider IP based governance topics to ensure the corporation is appropriately engaged.

The paper surveyed current law and literature to identify the top IP specific governance challenges, looking at IP transactions and patent pools as proxy to extract governance related topics. Review of both literature and law in the context of board topics for an IP centric organization remain the same for directors in non-IP organizations: fiduciary duty, duty of care, business judgment, and avoidance of conflict of interests. Research found these board responsibilities intersected IP topics in common law in the areas of commercial law, and intellectual property law, with secondary topics within bankruptcy and insolvency law, employment & labor law, and contract law. More specifically, it was found a governance framework to address these topics needs considered all these areas of law in the context of IP based transactions in the areas of IP litigation, enforcement approvals, acquisition, divestiture, M&A, licensing, asset valuation, asset taxation and transfer pricing, royalty and revenue sharing, dividend issuances, patent prosecution, antitrust, and infringement, or freedom to operate for the corporation

In an analysis of the IP governance issues through the lens of a board, there are at least five recommended best practices to consider enacting that will assist in successful governance of the aforementioned IP issues: IP oversight, Code of IP conduct, director IP education, independent IP advisors, and scheduled IP risk assessments. First, IP transactions and opportunities need an oversight framework applied against the key areas of finance, reputational impact, shareholder engagement, corporate disclosure requirements, and other strategic options the board typically reviews. Second the implementation of a “Code of IP Conduct” to promote proactive IP risk management and define the required level of ongoing IP engagement with directors and executives. Third, to embed IP knowledge and awareness into the board through IP based education. Fourth, to proactively and continually engage independent IP experts to provide guidance on the relevant IP risks and opportunities. Fifth, to conduct a regular IP corporate risk assessment, such as an annual review with IP experts and the entire board.

In assembling these best practices this research has implications beyond board members and directors. Shareholders, analysts, regulators, and policy makers need to be aware and actively influencing boards to prioritizing IP assets and IP risks in their governance frameworks. This includes pushing for IP centric corporate governance structures, principles, policies, and best practices for the board to be engaging with. While this will not be relevant for every corporation or market, all stakeholders operating in IP heavy environments should be cognizant of the increased importance of IP governance and the role it has for boards of directors.