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Going Global: How Canadian Companies View Intellectual Property

By: John Beardwood and Mark Penner

Introduction

Recognizing, protecting and exploiting Intellectual Property (“IP”) assets has never been more important to businesses. While capturing the benefits of innovation can make the difference between profitability and demise, there are numerous and competing priorities on companies' time, money, and attention that make doing so a challenge.

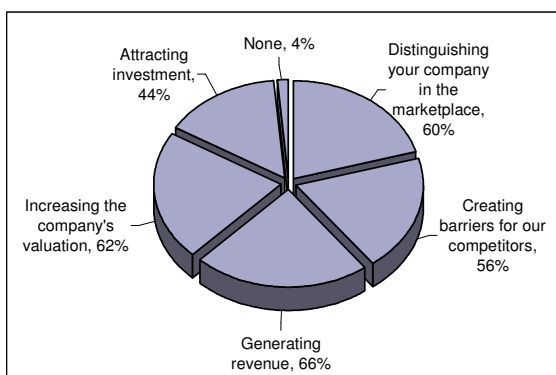
In order to assist our clients more efficiently and effectively manage their IP within this competitive and challenging marketplace, Fasken Martineau conducted a survey of a number of Canadian companies as to how these companies view the importance, value and role of IP in their business. The following analysis of the results of our survey will help our clients secure more effective IP protection, more effectively manage the IP development process and reduce the risk posed by third party IP.

Respondents View IP As Driving Their Business Model

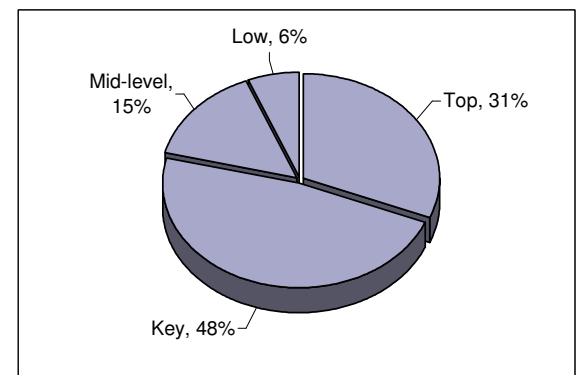
A majority of our 2009 survey respondents know and understand that IP is important to their business. Almost 80% of respondents consider IP to be a key or top priority, while only 6% consider IP to be a low priority.

Our survey respondents also have a clear, and remarkably uniform, view of the role that IP plays within their organizations. Two thirds of the respondents surveyed reported that IP plays a significant role in generating revenue for their company (for example, through licensing). A majority of respondents also indicated that IP “distinguishes” their company in the marketplace (60%) and “creates barriers for competitors” (56%).

Roles played by IP in Surveyed Companies



Priority of IP to Surveyed Companies



The fact that 62% of the respondents indicated that one of the key roles of IP within the business was to “increase the company’s valuation” suggests that most respondents understand the value of IP as an asset. Further, 44% of respondents considered that one role of IP was to “attract investment.”

Global IP Outlook: Looking beyond Canada to Secure IP Protection

IP protection in countries other than Canada is clearly important for the Canadian companies surveyed, as two thirds of the respondents report that they sell products

or make their services available outside Canada. Of those respondents that do sell products or offer services outside of Canada, 69% indicated that they have sought IP protection outside of Canada. The overwhelming majority (91%) of the respondents who sought protection outside of Canada indicated they had sought to protect their IP rights within the United States. However, other jurisdictions appear to also be key, including Europe (73%), the United Kingdom (55%), Japan (50%), India (36%) and China (32%). This not only reflects the growing role that these countries are playing within an ever increasing global market, but – in the case of India and China - may also reflect a perception that IP protection in these jurisdictions is becoming more effective, such that it justifies companies making the effort to obtain such protection.

What IP Do Respondents Own

A significant majority (96%) of respondents indicated that they owned some form of IP. When considering IP issues in greater detail, however, our survey results illustrated a disconnect between the acknowledged importance of IP, and a more specific understanding as to the nature of each IP asset and how to best leverage those assets. The breakdown of how the various rights are owned is as follows:

- While over half of respondents (56%) indicated that they owned **copyright**; 44% of respondents appear to have not recognized those copyright assets which they did possess. While it may of lesser importance to some survey respondents, it is likely that all respondents have some copyrighted material (i.e. manuals and other user documentation, websites, etc.). As such, we would expect that the number of responses confirming copyright ownership to be at 100%. Copyright arises from the act of creation (i.e. registration of that copyright, while in many cases advisable, is not required) and would therefore apply to a wide variety of material which would be significant to those respondents developing software, as copyright remains a primary means by which software is protected.
- A significant majority of the respondents surveyed (70%) indicated that they owned **trade-marks**. Like copyright, it is surprising that less than 100% of respondents recognized that they owned a trademark: each company generally will have at least one trade-mark, whether or not it has registered that mark. The response may reflect a lack of understanding that trade-marks can arise through simply *using* any word, symbol, logo, slogan, etc. or combination thereof that identifies the wares and/or services of one company from those of another (referred to as “common law rights”) – that is, trade-marks do not arise through registration only.
- Only fifty percent of the respondents in 2009 indicated that they owned **trade secrets**. “Trade secrets” per se are a concept under U.S. law, the Canadian equivalent of which a confidentiality obligations. Given that trade secrets therefore are effectively a form of confidential information that has some commercial value (e.g. customer lists, supplier information, etc.), respondents would appear to be significantly underestimating the trade secrets held by each company.
- Given the predominance of technology-focused respondents in the survey (e.g. life science/biotech and technology/communication); it was not surprising that **patent** ownership was at 60%.
- Notwithstanding the respondents’ recognition of the significance of IP ownership and its importance for asset production and revenue generation, only 31% of survey respondents had had the value of their IP assets assessed, and of these, the majority of these assessments were completed without professional evaluation. As a result, almost three quarters of the respondents will have very little idea as to the value of their IP assets. It goes without saying that this is inadvisable for a business, just as it would be inadvisable for any other asset, for among other reasons because it means the business cannot effectively leverage those assets to facilitate debt or equity financing.

Failing to Minimize the Risks Associated With Third-Party IP

Based on the responses, the most significant instances of IP “licensing-in” (i.e. in contrast to a company “licensing-out” their IP) are in the fields of patents (46%) and copyright (39%). Despite this, however, it appears that the 2009 survey respondents are not fully taking into account other types of IP licenses from third parties: nearly 40% of the companies surveyed claimed that they did not license any IP rights from third parties. This number is perhaps partially explained (a) by the failure of the respondents to take into account off-the-shelf software products like Microsoft Office, and (b) by what may be the strategic decision of certain of the respondents to develop and market products to neither use any third party IP in their products, nor bundle their products with licensed third-party products to create a single solution.

IP Management

71% of respondents polled indicated that they have a formal policy governing IP issues, such as disclosure of inventions and employee development. While a majority of respondents appear to take the protection and ownership of IP rights very seriously, that still means that almost one third have not implemented any formal IP policies. This is a significant gap for two reasons. First, the absence of such policies increases the probability of there being disputes regarding IP ownership in the future. Second, in our experience, one of the first pieces of data an investor will evaluate in assessing the status of a target's IP portfolio (after review the existence of actual IP registrations) is the existence of and degree of compliance with such a policy. Given that 62% of the respondents indicated that one of the key roles of IP within the business was to "increase the company's valuation", the failure to have an IP policy is problematic. Indeed, over two-thirds (69%) of the respondents agreed that their company's "IP strategy requires improvement."

The failure to implement effective IP strategies also appears to raise issues in the context of the licensing-out of respondent-owned IP. While 55% indicated that they had licensed out IP, almost a third were "somewhat uncomfortable" with providing the licensee with representations and warranties regarding IP ownership and infringement. An effective IP policy plays a significant role in addressing that discomfort.

Assessing and Managing IP: Risks and Rewards

Before launching a new business, product or service, 39% of companies indicated that they would conduct a market analysis of existing businesses, products or services. 20% indicated they would search IP databases. Searching IP databases is one of the best steps that can be taken to help avoid particular IP disputes. While there are some costs associated with conducting IP searches, the relatively minor investment can pay off significantly by identifying IP risks and helping to eliminate the much more significant costs associated with IP litigation.

Perhaps more importantly, before going to market, a company should at least confirm its own internal records regarding ownership of IP directed to that business, product or service. Only 17% of the respondents took this step: a large majority of respondents still fail to adopt this relatively simple measure. Each company should ensure that it has completed its own internal IP due diligence, including obtaining assignments of copyright and waivers of copyright from its personnel, prior to going to market with its product. In the latter case, it is important that each company take such measures to confirm ownership of IP internally to avoid personnel contesting ownership, in particular where such personnel may then be hired by a competitor.

While the vast majority of companies surveyed (more than 67%) indicated they sell products or make services available outside of Canada, slightly more than one quarter of the respondents had taken no steps to identify third-party IP rights in applicable foreign jurisdictions. This level of risk mitigation does not correlate well with the global scope of the activities of many of the respondents.

In summary, it is difficult to overstate the importance of conducting sufficient IP due diligence prior to taking a product or service to market. Such due diligence assists the respondent to avoid not only infringement claims by third party owners of IP, but also breach of contract and/or indemnity claims by the respondent's licensees or purchasers, given that each licensee or purchaser will likely require that the respondent provide contractual representations, warranties and/or indemnities regarding ownership and non-infringement. 31% indicated they were somewhat uncomfortable with the representations and warranties regarding ownership and non-infringement. However, in contrast, sixty-nine percent of respondents indicated that they were either very or somewhat comfortable with these representations and warranties regarding ownership and non-infringement, a result which is difficult to reconcile with the fact that over 80% of the respondents failed to complete *any* internal IP due diligence prior to taking a product or service to market.

IP Disputes

The adoption of an IP strategy that includes the implementation of an IP policy, the registration of IP and the conduct of IP searches prior to going to market is, of course, intended to forestall the emergence of IP disputes. In 2009, a very significant 43% of respondents indicated that they had been involved in an IP-related dispute. While the majority of those disputes were in Canada (73%), a large number took place in the United States (47%) and Europe (33%). Over half (54%) of the respondents indicated that the litigation significantly or somewhat altered or impacted their business plan; surprisingly, 47% indicated that the litigation had no impact.

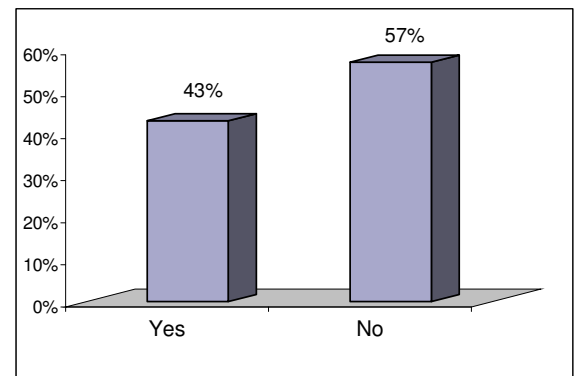
Of the IP assets involved in the dispute, 54% involved patents and 31% involved trade-marks, notwithstanding that in the case of those IP assets appropriate IP searches would have assisted in identifying any existing third party patent or trade-mark rights (all issued patents and registered trade-marks are publicly available for searching).

In summary, while searching is somewhat less useful for copyright, trade secrets and common law trade-mark rights where there is no registration requirement for these IP rights to be effective, searching is still one of the most cost effective

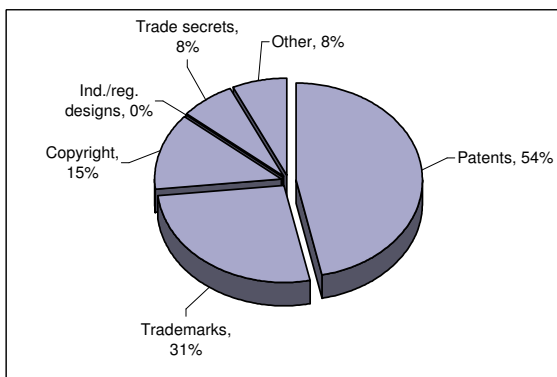
means of reducing the risk of an unexpected IP dispute. Put another way, a sophisticated business should no more omit looking at the IP landscape relevant to a proposed or modified product, then it should omit conducting a market analysis prior to developing and taking to market a new product or service. Yet the results from our respondents do not reflect this logic.

One means of helping to offset the costs of IP litigation is insurance. In recent years, insurance policies for IP infringement claims have become more commonplace. However, the vast majority of respondents (72%) have not sought any advice from their insurance provider.

Involvement of Surveyed Companies in Legal Disputes Over IP



IP Right Involved in Dispute



Conclusion

Upon reviewing our 2009 survey results, a number of themes emerge. First, Canadian companies continue to view IP as driving their business model, and that further, when considering IP protection and enforcement, a high percentage of respondents are adopting a more global outlook. Second, the 2009 survey results evidence that there is often a significant disconnect between the respondents' general understanding of the importance of IP and their more specific understanding as to the nature of each IP asset in their businesses and how to best leverage those assets. Third, a surprising number of respondents polled indicated they had already been involved in a legal dispute involving IP. Finally, despite this litigation risk, respondents have been slow in adopting the appropriate risk mitigation strategies. It remains to be seen whether in tough economic times this was the right choice - the results of the 2010 survey will be revealing in this regard.

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